

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**HERMES FUND MANAGERS LIMITED**

**31 DECEMBER 2019**



**Registered No: 1661776**

# **HERMES FUND MANAGERS LIMITED**

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## HERMES FUND MANAGERS LIMITED

### ABOUT US

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised asset management capabilities across equity, fixed income, private markets, multi-asset and liquidity management strategies, together with industry-leading stewardship.

Our active investment capabilities span money markets, public and private equity and debt, infrastructure and real estate strategies.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and where possible, to contribute to positive investment outcomes that benefit the wider world.

All activities previously carried out by Hermes now form a part of the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

This Annual Report discusses the business, financial results and risk factors of Hermes Fund Managers Limited (together with its consolidated subsidiaries, "HFML" or "Hermes"), and not the consolidated business, financial results and risk factors of Hermes' majority owner, Federated Hermes, Inc ("Federated"). Accordingly, unless the context clearly requires otherwise, or unless specifically specified otherwise, references in this Annual Report and Financial Statements to "our", "the Board," "Exco", "CEO", Board committees, directors, officers, employees, service providers, agents, performance, plans, or similar expressions should be construed as referring to "Hermes", "Hermes' Board", "Hermes' Exco", "Hermes' CEO" and Board committees, directors, officers, employees, service providers, agents, employees, plans, etc. of Hermes (rather than Hermes' majority owner, Federated Hermes, Inc.). For information regarding Federated Hermes, Inc.'s consolidated business, financial results, and risk factors, as well as other information, please see Federated Hermes, Inc.'s most recent Annual Report on Form 10-K for the year ended December 31, 2019, which is available under "Annual Report" under the "Investor Services" tab at [www.FederatedHermes.com](http://www.FederatedHermes.com).

For the purposes of this report, Hermes Fund Managers Limited will be referred to as "Hermes" and Federated Hermes, Inc. formerly Federated Investors, Inc. will be referred to as "Federated" throughout.

#### **Forward-looking statement**

Certain statements in this report constitute forward-looking statements, which involve known and unknown risks, uncertainties, and other factors that may cause the actual results, levels of activity, performance or achievements of Hermes Fund Managers Limited and its subsidiaries (collectively, Hermes), or industry results, to be materially different from any forecast results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking statements are typically identified by words or phrases such as "trend", "potential", "opportunity", "believe", "expect", "anticipate", "current", "intention", "estimate", "position", "projection", "assume", "continue", "remain", "maintain", "sustain", "seek", "achieve", and similar expressions, or future or conditional verbs such as "will", "would", "should", "could", "may" and similar expressions.

## **HERMES FUND MANAGERS LIMITED**

### **Forward-looking statement (continued)**

Hermes' business and financial results are subject to business, operational and financial risks. Past performance is not a guarantee of future results. Both risks and mitigants are discussed on pages 42 to 47. As a result, no assurance can be given as to future results, levels of activity, performance or achievements, and neither Hermes nor any other person assumes responsibility for the accuracy and completeness of such statements in the future.

# HERMES FUND MANAGERS LIMITED

## OUR YEAR IN BRIEF

### 2019 Financial and Business Highlights

Our mission is to create long-term wealth for investors and support positive change in the world by investing responsibly. We understand that how we invest affects the world in which our clients and their customers live and will retire into – and the real value of their savings and future incomes.

OBJECTIVES	MEASURE	2019	2018	VARIANCE
<b>DELIVERING HOLISTIC RETURNS</b>	Percentage of investment strategies with a five-year track record to beat their benchmark <sup>1</sup>	68.4%	68.4%	=
	Assets under stewardship <sup>2</sup>	£662.2bn	£389.5bn	↑
	Number of companies engaged	1,043	746	↑
	Number of company and policy interactions	2,671	2,215	↑
<b>EMPLOYEE ALIGNMENT</b>	Employee turnover	12%	11%	↑
	Female employees (firm-wide)	42%	40%	↑
<b>DELIVERING A SUSTAINABLE AND PROFITABLE FIRM</b>	Assets under management and advice <sup>3</sup>	£37.1bn	£33.5bn	↑
	Statutory revenue <sup>4</sup>	£158.2m	£142.8m	↑
	Statutory pre-tax profit/(loss)	£14.8m	(£40.0m)	↑
	Underlying profit <sup>5</sup>	£25.8m	£22.3m	↑
	Third-party revenue (as a % of total revenue)	82%	77%	↑

1 – Performance is calculated using published benchmarks for strategies. If a strategy does not have an official benchmark a performance target is used. A representative portfolio for each strategy has been used where appropriate.

2 - Assets under stewardship relate to Equity Ownership Service at Federated Hermes (EOS).

3 - The movement in assets under management and advice is explained in more detail on page 23.

4 - Statutory revenue represents the result as calculated in accordance with United Kingdom Generally Accepted Accounting Practice. Statutory revenue throughout the report relates to net group revenue as shown in the profit and loss account.

5 - Underlying profit represents the result regularly provided to the Board as this is considered the most useful basis on which to manage the activities of the Group. The reconciliation for this is provided on page 22.

## **HERMES FUND MANAGERS LIMITED**

### **CHAIRMAN'S STATEMENT**

It has been another year of achievement, growth and positive change for Hermes.

Our status as pioneers of holistic returns and stewardship was advanced with the 15<sup>th</sup> anniversary of EOS at Federated Hermes ("EOS"), the growth of its assets under stewardship to £662.2bn, and our commitment to improving best practice in this field by setting out a bold 2020 vision for how investor stewardship should evolve. Our place at the vanguard of responsible investment was recognised nationally when our CEO Saker Nusseibeh was awarded the Commander of the Order of the British Empire (CBE) designation for services to responsible business and finance. With Federated, we set a strong foundation for the future growth of the combined firms.

Following a year in which our majority owner integrated Hermes' proprietary ESG analysis and stewardship into more than \$370bn of money market, equity and fixed income funds and became a client of EOS; in which our firm formalised global business-development plans; and in which we worked with a cornerstone client to jointly launch a world-first sustainable-credit product, we have confirmed the alignment of our respective strengths and cultures under a new identity: Federated Hermes. Our new brand strengthens our position as a global leader in active, responsible investing and stewardship.

#### **Achieving, and investing in, growth**

In 2019, almost 70% of our strategies with a five-year track record outperformed their benchmarks and we increased the number of our engagement and policy interactions by 20.6% to 2,671 for the year. We grew our business, increasing assets under management by 10.7% to reach £37.1bn, and increased assets under stewardship by an impressive 70%. This activity generated a 15.7% increase in underlying profit to £25.8m and an increase in statutory profit before tax to £14.8m.

We continued to diversify our range of investment capabilities, expanding our sustainable-investment franchise with an innovative high-yield credit capability focused on engaging bond issuers on the 17 United Nations Sustainable Development Goals. We invested in our proven ability to deliver high-impact, high-performing real estate placemaking projects – exemplified by the regenerations of King's Cross in London and NOMA in Manchester – by acquiring specialist property developer MEPC in January 2020. To further grow the broader Hermes business, we established an office in Madrid to service the Spanish and Portuguese markets and advanced plans to expand further into Asia, beyond Singapore.

#### **Market developments**

Global economic growth slowed in 2019 amid US-China trade tensions, with major central banks resuming monetary easing, and there is widespread agreement that fiscal stimulus by governments is now needed to revive activity. However, solid labour markets supported consumer spending and stock markets reached post-financial-crisis highs, as shown by the MSCI World Index returning almost 24% and the S&P 500 surging 28% by year end. Such contrasts reaffirm our belief in active investment management: experienced, informed views on markets and economies – combined with a fiduciary focus on long-term wealth creation and an understanding of how sustainability affects asset valuations – provide the most effective means of preserving and growing capital throughout such uncertainty.

## **HERMES FUND MANAGERS LIMITED**

### **CHAIRMAN'S STATEMENT (continued)**

The COVID-19 outbreak in 2020 poses a very real threat to the global economy. As the virus has taken hold in Europe uncertainty has intensified. Governments have responded with differing packages of fiscal stimulus but there will be a considerable medium term economic impact as a result of social distancing measures applied in the major economies. The Hermes business is robust and sufficiently well capitalised to absorb the likely impacts that may follow as a consequence of this outbreak and the measures being taken to contain it. More detailed considerations are given in the Strategic Report and Principal Risks sections of this Annual Report.

#### **Culture and sustainability**

As a firm, we seek long-term outperformance that supports positive change in the world. Our people contribute to this goal by working to fulfil the Federated Hermes Pledge. It compels signatories to work ethically, responsibly and with integrity by putting the interests of clients and their beneficiaries first. By the end of 2019, 99% of our people had signed the pledge and it had been enthusiastically adopted by Federated Hermes as a whole.

As responsible investors, we are also driven to be a responsible business. Throughout 2019, we offset the 824 tonnes of CO<sub>2</sub> generated by our day-to-day operations and business travel by planting 2,200 trees. We continued to report on our contribution to the transition to a low-carbon economy by complying with transparency requirements set by the Task Force for Climate-related Financial Disclosures ("TCFD"). In the community, our staff volunteered to help improve social and financial inclusion by assisting primary-school students develop their language and mathematics skills, and the elderly with technology and internet safety. Working with Business in the Community ("BITC"), we advised charities on organisational strategy.

#### **Proof of purpose**

Our actions, as a responsible investor and business, show that Hermes employees seek the investment outperformance and positive outcomes that define our purpose. Saker earned the CBE accolade through the energy and intellect he applied in advocating responsible investment over many years: an approach once on the fringe and now in the industry's mainstream. But he could not have made this argument in such a compelling way without the efforts and achievements of the Federated Hermes employees who have embodied our purpose and driven its strong, sustained performance and growth. Seen in this context, Saker's honour not only reflects his exceptional efforts but also the outstanding work and belief of many people at Federated Hermes, both past and present.

David Stewart  
Chairman

9 April 2020

## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT

#### OUR GROWTH STRATEGY

Our growth strategy is driven by an intense focus on delivering strong risk-adjusted investment performance for clients and, where possible, positive outcomes for society and the environment.

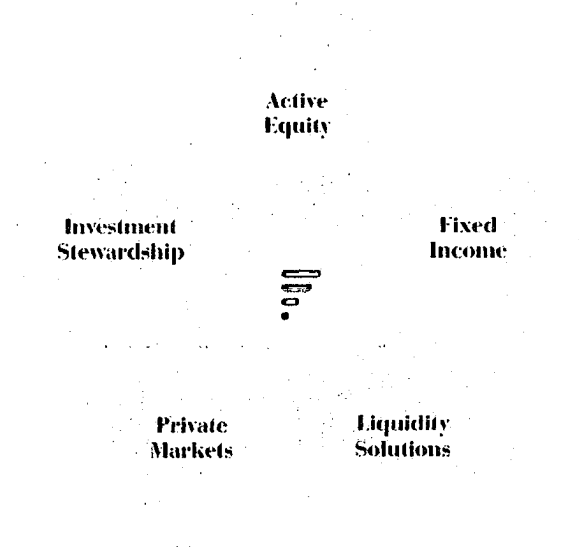
We seek sustainable business growth, profitability and engagement as a leading responsible investor. These objectives are firmly aligned with the interests of our clients, the companies we invest in and engage with, and the world in which they operate.

Our growth framework is therefore focused on areas where:

- There is enduring appeal from long-term investors
- We have a differentiated approach to the way we manage assets
- We can offer access to co-investment, club and joint-venture opportunities in private markets alongside leading institutional investors
- We enhance performance by integrating ESG factors and active ownership into our public and private markets strategies. Going further, where possible, we invest and engage for impact: identifying companies that are generating growth by addressing enduring social and environmental needs.

Within this framework, we ensure our strategic decisions are aligned with at least one of our five growth pillars:

- Raising assets in our high-conviction, high-active-share public-equity strategies
- Broadening our range of benchmarked, unconstrained and multi-asset credit capabilities
- Leveraging the liquidity solutions expertise of our ultimate parent company, a cash management pioneer and money market leader
- Providing access to private-market investment opportunities in the infrastructure, private equity, private debt and real estate sectors through a range of segregated, pooled and joint-venture structures
- Expanding our market-leading stewardship services and ESG-integrated investment propositions by offering clients a range of active ownership and impact strategies.



We believe that this provides us with an optimum client-centric strategy for sustainable growth, delivering the performance we aim to achieve and the outcomes our investors seek.



## **HERMES FUND MANAGERS LIMITED**

### **STRATEGIC REPORT (continued)**

#### **Becoming Federated Hermes**

Our story as a leading responsible investor has been decades in the making – and an exciting new chapter is developing.

In 2019, the collaboration between Hermes and our majority owner, Federated Hermes, Inc. (formerly Federated Investors, Inc.), culminated in the recent landmark event for our firm: the confirmation of our shared purpose under one brand. The February 2020 change in Federated Hermes, Inc.'s ticker symbol to FHI on the New York Stock Exchange confirmed our commitment to global, active, and responsible investing.

As Federated Hermes, we are guided by our conviction that responsible investment is the best way to create long-term wealth for our clients. Together, we focus our fiduciary mindset, investment skill and stewardship expertise on generating risk-adjusted outperformance for clients, supporting positive change in the wider world and achieving sustained business growth.

#### **Becoming Federated Hermes: 2019 milestones**

Our rebrand aligns more closely the respective strengths and cultures of Hermes and Federated Hermes, Inc. and cements efforts to leverage our complementary investment and distribution strengths. Our achievements in 2019 included:

- At December 2019, our combined assets under management ("AuM") surpassed \$575bn;
- We launched a high-yield bond fund driven by engagement of the UN Sustainable Development Goals ("SDG"), the first product of its kind, with our seed investor on a global basis in September 2019. It was the fifth product of Hermes origin to be developed into a US mutual fund with Federated;
- Federated became an EOS client;
- A stewardship hub was established in Pittsburgh, informed by the team operating the original Responsibility Office in London to locally deliver engagement in North America and to assist our parent integrate ESG and stewardship in their investment activities. The stewardship hub co-ordinates, develops and supports the implementation of the Group's responsible investment and stewardship policies;
- Hermes' proprietary ESG analysis was integrated into the investment process for Federated's money-market funds, which manages \$396bn in money market assets; and
- We formalised global distribution plans, with Hermes becoming responsible for sales and client servicing in the Europe, Middle East and Africa and Asia-Pacific regions and Federated for the Americas.

## **HERMES FUND MANAGERS LIMITED**

### **STRATEGIC REPORT (continued)**

#### **Brexit preparations finalised**

Hermes is an international business, with much of our success to date and potential for future growth lying in Europe. We are committed to investors in this region and in 2019 continued our meticulous preparations to ensure that we would serve them at our full strength after the UK exited the European Union on 31 January 2020.

In 2019 we expanded our Dublin office, Hermes Fund Managers Ireland Limited (HFM Ireland). This entity is responsible for managing and marketing our Europe-domiciled funds and segregated mandates with clients in the region. HFM Ireland is authorised by the Central Bank of Ireland ("CBI") as a UCITS management company, alternative-investment fund manager and provider of individual portfolio-management services. HFM Ireland is the main contracting party managing our EU-distributed funds and future mandates with investors in the region. In February 2019, Hermes' UCITS operation was transferred to Dublin. In March 2019, our alternative-investment fund business followed.

Our Dublin staff has grown to eight professionals focused on investment oversight, business development, risk and compliance. It is led by our Head of Office in Ireland and includes a Head of Investment. It is important to note that there are no major changes in the operating models of Hermes investment products: HFM Ireland delegates day-to-day portfolio management services to Hermes in the UK, which is supervised from Dublin in accordance with the requirements of the CBI and relevant European authorities.

#### **Placemaking with MEPC**

In January 2020, we completed the acquisition of MEPC Limited, a UK commercial real estate developer and asset manager, from the BT Pension Scheme – a long-standing client and our former majority owner.

This addition of further expertise in specialist asset management and development management to our team greatly enhances our real estate proposition – particularly our ability to deliver urban-regeneration schemes, which not only provide the opportunity for attractive long-term financial returns but positively impact the environment, communities and local economies in which they are located. These projects are key manifestations of Hermes' purpose and help differentiate us among competitors.

In the next few years, Hermes will be developing significant mixed-use placemaking projects in Manchester, Leeds, Birmingham, Bristol and Glasgow. MEPC will reinforce our ability to strive to deliver successful outcomes across all these sites – and in the future afford the opportunity to apply our highly successful urban-regeneration model overseas.

## **HERMES FUND MANAGERS LIMITED**

### **STRATEGIC REPORT (continued)**

#### **Holistic Returns**

#### **Responsibility works**

In 2019, we continued to grow revenues, assets under management and assets under stewardship. Delivering positive outcomes is, increasingly, good for business.

We have:

- Outperformed benchmarks in 68.4% of our investment strategies over five years to the end of December 2019;
- Grown to serve more than 653 clients in 34 countries;
- Increased third-party assets by 176% and third-party revenues to 82% of the total over the last 5 years;
  - £22.7bn of our AuM – 61% - was engaged by EOS in 2019
- Increased stewardship assets to £662.2bn – achieving 97% growth over the last three years;
  - Engaging for investors worldwide:
    - North America: £322.5bn
    - Europe: £185.4bn
    - Emerging markets: £75.0bn
    - Developed Asia: £72.5bn
    - Australia and New Zealand: £6.8bn
- Engaged with companies that have a combined market capitalisation of more than \$26.6tn – more than half of the value of the MSCI All Countries World Index; and
- Expanded our portfolio of major urban-regeneration projects to cover 9 developments in UK cities – revitalising communities, supporting local jobs growth and attracting global capital.

#### **Investment performance**

Delivering sustained, risk-adjusted outperformance is the lifeblood of our business. What we have known for decades – and what many competitors are now realising – is that a deep and consistent integration of ESG analysis and stewardship intelligence into our investment decisions across public and private markets provides a fuller understanding of the risks and opportunities to which a company is exposed. This is essential in striving to deliver the long-term performance and positive outcomes our clients seek.

# HERMES FUND MANAGERS LIMITED

## STRATEGIC REPORT (continued)

### Standing by our performance

For the 5 years ending 31 December 2019:

- 68.4% of our strategies outperformed their benchmarks
- 87.5% of our strategies exceeded the median return of their respective peer group
- Our strategies generated an aggregate asset-weighted Information Ratio of 0.64
- Our equity strategies have generated a median active share of 87.3% as at 31 December 2019

The majority of our strategies have outperformed since inception:

### Performance vs benchmark geometric relative return to end December 2019

<u>Strategy</u>	<u>1 year</u>	<u>Since inception</u>
Asia Ex-Japan	(3.7%)	6.1%
Global emerging markets	5.2%	2.7%
Global emerging markets - SMID	7.8%	5.3%
Global emerging markets ESG	4.1%	4.1%
Global equity ESG	0.6%	1.0%
Global equity Low Carbon	0.2%	(0.4%)
Global equity Core	(2.5%)	0.3%
Global equity screened ESG	(0.5%)	0.5%
Europe - European Alpha	0.5%	1.0%
Europe - Europe Ex-UK	1.7%	2.1%
Europe - Eurozone equity	2.2%	0.3%
Europe - Sustainable Europe	2.1%	0.2%
US small companies	1.7%	0.3%
SDG engagement fund	0.7%	1.1%
Global small cap	(1.8%)	0.9%
Impact Opportunities	2.3%	4.4%
Credit - High Yield	3.4%	0.6%
Credit - Multi Strategy <sup>1</sup>	13.7%	5.4%
Credit - Absolute return <sup>1</sup>	9.2%	3.2%
Credit - Unconstrained <sup>1</sup>	16.8%	9.9%
Credit - Short Duration	2.1%	1.2%
Credit - High Yield ESG	2.5%	0.3%
Credit - SDG Engagement High Yield <sup>3</sup>	-	0.9%
UK Direct lending <sup>2</sup>	3.9%	4.1%
European Direct Lending <sup>2</sup>	1.7%	1.7%
Real Estate - UK Core	2.9%	(0.3%)
Real Estate - International	(5.4%)	3.3%
Real Estate - Hermes Property Unit Trust	0.7%	1.8%
Real Estate Debt <sup>2</sup>	1.1%	2.7%

<sup>1</sup>Absolute returns (does not have official benchmark)

<sup>2</sup>IRR returns

<sup>3</sup>Strategy in existence less than 1 year

Past performance is no guarantee of future results

## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

#### Responsible property investment

We act as stewards of the real estate assets we manage, ensuring that our long-running responsible property investment (RPI) principles are embedded in our governance and day-to-day management.

We have further embedded our RPI principles by intentionally seeking measurable positive outcomes for the wider communities within which we operate, alongside environmental enhancements and delivering strong long-term investment returns. This approach has established a framework for our real estate business which adopts three key themes:

- **Meaningful place-making** that fosters civic pride and a sense of belonging for wider communities;
- **Healthy, engaged and productive occupiers and communities** that deliver desirable social and environmental outcomes for all stakeholders; and
- **Achieving a just transition to a low-carbon, circular economy** to help prevent further adverse climate change and resource scarcity.

As we continue to experience the benefits of RPI, we are already starting to realise the rewards of impactful intent.

#### 1. Case study: cutting carbon through RPI

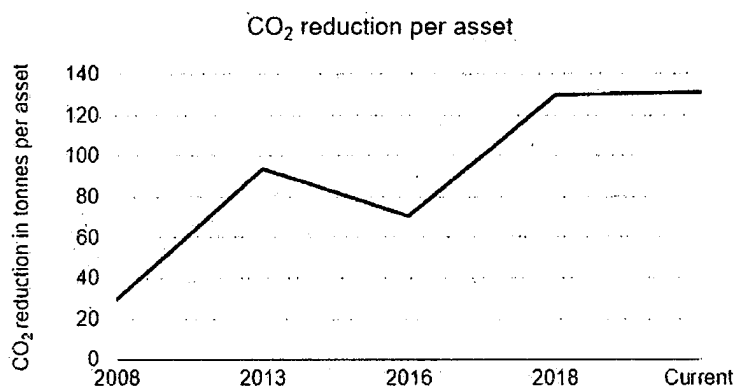
Improving the environmental performance of our commercial properties – which benefits the environment while attracting higher quality occupiers and reducing void periods – has been a hallmark of RPI.

Office buildings consume vast amounts of energy to both operate business functions as well as maintain the health and comfort of the people using them. In today's world, energy and waste-disposal costs, combined with greater climate-change awareness and pressure to reduce carbon emissions, further incentivises the development of energy-efficient solutions.

We have long championed energy efficiency in the properties we manage. The last decade of returns from our flagship UK commercial property fund proves that our conviction has been rewarded by stronger financial returns: we have achieved a dramatic reduction in CO<sub>2</sub> emissions from 2008 to 2019 corresponding with a 1.5% increase in the outperformance of the Hermes Property Unit Trust ("HPUT").

STRATEGIC REPORT (continued)

Carbon reduction: Hermes Property Unity Trust, 2008-2019



Notes:

1) Against 2008 baseline year of Carbon Dioxide equivalent emissions.

Source: Carbon Intelligence

## 2. Case study: meaningful placemaking with impactful intent

As major property investors, Hermes can significantly influence the future success of the places and spaces where we choose to allocate capital.

Indeed, a commitment to meaningful placemaking is a cornerstone of our real estate investment philosophy, as laid out in our impact framework for the asset class. Since most of Hermes' property investments are concentrated in urban areas, it follows that how we manage those developments will have a deep and long-lasting effect on the cities where our projects dwell.

We define 'meaningful cities' as places that people want to work and live in, and which naturally foster a sense of civic pride and belonging among inhabitants. Meaningful cities provide the peaceful and economically productive backdrop allowing citizens to participate in social, economic, leisure and community-based activities.

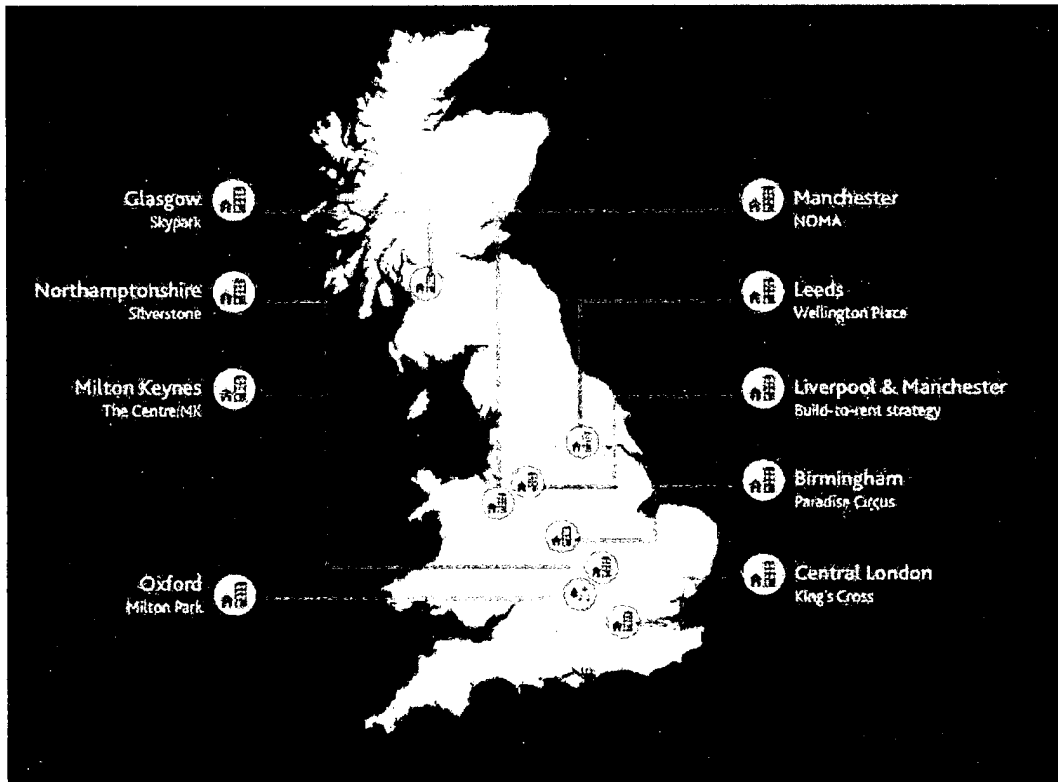
Cities designed around such holistic principles create a virtuous cycle, which benefits individuals, communities, businesses and local and regional government authorities, while helping preserve 'natural capital' and ensuring the historic continuity of built environments. In turn, meaningful cities can likely sustain higher economic growth by attracting and retaining talent and capital, which provides a better return on capital for investors: a true win-win.

Over the last six years, Hermes has initiated seven major urban-regeneration schemes and two significant science and technology related clusters. In total these projects extend to 19m square feet with an estimated end value of £13bn. These schemes are a tangible manifestation of our responsible approach to meaningful placemaking.

## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

#### Our UK urban-regeneration projects



In order to obtain an objective assessment of our placemaking activities, we engaged independent economic researcher Hatch Regeneris in 2018. Focusing on social and economic stories, the reports detail how our meaningful placemaking efforts have delivered social value and economic benefits to local businesses and communities. They focused on three of our flagship developments: King's Cross in London, NOMA in Manchester and Wellington Place in Leeds.

These sites differ significantly in terms of size and overall spend and represent diverse socioeconomic regions of the UK with a wide variance of market prices, rents, risk premia and environmental challenges. The pilot benchmark study aims to normalise social outcomes in order to enable a comparative analysis of the three sites.

From that perspective, we can more accurately measure where we have achieved the highest impact intensity across the targeted social and economic factors. Some surprising results emerged, including the finding that wages at NOMA are higher than those at King's Cross. NOMA employees, in fact, earn a staggering 45% – or roughly £12,000 per year – more than the average worker in Greater Manchester. This suggests that our development has helped improve socioeconomic value in UK regions historically associated with post-industrial underinvestment. This is aligned with our impact strategy.

STRATEGIC REPORT (continued)

NOMA, from multiple angles



We have found that the meaningful placemaking approach can deliver results greater than the sum of its parts:

- Restoring a sense of civic pride and belonging, often in regions of the UK that may have historically suffered from underinvestment
- The creation of mixed-use and multi-occupier sites that offer job opportunities and training, increasing the pool of technical and vocational skills in industries put forward by the local authorities and regional enterprise partnerships we work with. Growth in skilled workers typically attracts further capital investment and talent. However, our sites also provide entry-level employment to ensure inclusivity and diversity
- Introducing mixed-use and accessible urban spaces that function as a community and cultural 'mosaic'. Respecting the heritage of the sites we develop, we aim to conserve the local area's link with the region's history and ensure it exists in harmony alongside modern educational, commercial, technological, residential and wellbeing structures.
- Enhancing accessibility with outstanding public transport links and 'walkability' not only reduces carbon emissions but enhances social mobility.

The purpose of meaningful placemaking is to attract people to productive and positive urban spaces that were neglected. By carefully evaluating site-specific socioeconomic factors and understanding the cultures of local communities, we learn how these developments affect the ultimate long-term users of the properties – and this informs construction decisions.



## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

#### ESG Engagement and setting our 2020 vision for stewardship

Companies do not exist in isolation: they use resources from around us, employ labour and attract customers from towns and cities, and are required to operate under the laws of the land. They influence the lives of far more people than shareholders alone, but some businesses act to the detriment of many – including, in the long run, themselves and their investors. To help ensure that companies exert a positive impact on the world, including the bottom line, we believe that investors need to do more than assess ESG risks. They must engage.

In 2019, we demonstrated our industry leadership in stewardship by celebrating the 15<sup>th</sup> anniversary of EOS, our best-practice engagement team, and by defining our vision for the evolution of stewardship in the 2020's. To truly come of age, we argued that stewardship must move to the heart of investment activities rather than being secondary to the buying and selling of assets. This requires significant resources and a shift in focus from policies and processes towards outcomes. The responsibilities of investors must continue throughout the lifecycle of a holding, which is a concept linked to what should be every asset managers' *raison d'être*: to create wealth over the long term. Our vision for stewardship in the next decade is set out below:

- **Strong stewardship will be at the heart** of the way investment managers fulfil their business purpose: sustainable wealth creation for all investors who entrust us with their capital;
- **Stewardship will be a driving force in investment decision-making and fully integrated** into every area of investment management, from product development to client relationship management to reporting;
- While boards will continue to be held accountable by investment managers, **stewardship will evolve to provide collaborative support** and empower companies to deliver sustainable returns to their investors;
- Stewardship will be **highly objective-focused**, and its effectiveness measured by robust systems and processes;
- Investment managers will need to **substantially increase, broaden and integrate different skillsets** in their investment teams to strive to deliver effective stewardship and performance; and
- Where it becomes necessary to **protect long-term, sustainable wealth creation**, investment managers will, where possible, strive to shape a better outcome.

#### Our record of responsibility

Hermes has a proud heritage and strong track record of responsible investment, reinforced by evidence that our approach supports long-term outperformance and positive change.

## **HERMES FUND MANAGERS LIMITED**

### **STRATEGIC REPORT (continued)**

#### **Why do we analyse ESG factors and engage companies?**

In equities:

- A governance premium exists: companies with strong corporate governance typically outperform poorly governed peers by an average of 24bps each month; and
- The social uprising is gathering force: companies with good or improving social factors outperform by 15bps each month on average<sup>1</sup>.

In fixed income:

- Corporate and sovereign debt issuers with the lowest ESG ratings tend to have the widest credit spreads<sup>2</sup>.

Through engagement:

- Companies undergoing successful change can generate 7.1% in additional annualised returns<sup>3</sup>.

#### **How do we capture these benefits in our investment strategies?**

- We integrate ESG and engagement insights through proprietary research tools:
  - ESG Dashboard: displays the current and projected ESG risks of companies;
  - ESG Portfolio Monitor: gauges the aggregate sustainability risk of each Hermes strategy;
  - Credit ESG-risk pricing tool: measures the correlations between corporate-debt issuers' ESG scores and their credit spreads; and
  - SDG Taxonomy: a living research project connecting tangible investment themes with the underlying targets of the Sustainable Development Goals.
- Our Responsibility Office oversees ESG and engagement integration and sits on a par with the Hermes Investment Office. The Responsibility Office impacts investment strategies as it co-ordinates, develops and supports the implementation of the group's responsible investment and stewardship policies.

#### **A force for positive change**

We pioneered stewardship and continue to advance best practice:

- 1983-1993: We were early advocates of stronger UK corporate governance. Our campaigns included challenging companies to stop preferential executive treatment, arguing that long-term, rolling director contracts be terminated and catalysing the movement to split CEO and Chair roles;
- 1996: Our first team dedicated to engaging companies on corporate governance was established. This team grows to focus on companies in the UK, Europe and Japan;

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<sup>1</sup> Research findings based on our analysis of global stock returns from 31 December 2008 to 30 June 2018

<sup>2</sup> As measured by spreads on the relevant issuers' credit-default swaps.

<sup>3</sup> Source: The 2012 study by Elroy Dimson, Oğuzhan Karakaş, and Xi Li analysed an extensive database of corporate social responsibility engagements with US public companies over 1999–2009 addressing environmental, social, and governance concerns. Engagements are followed by a one-year abnormal return that averages +1.8%, comprising +4.4% for successful and zero for unsuccessful engagements. Past performance is not a reliable indicator of future results.

## **HERMES FUND MANAGERS LIMITED**

### **STRATEGIC REPORT (continued)**

- 2002: We coin the term 'engagement' to define our long-term, collaborative work with companies and other assets to improve their performance including their ESG performance;
- 2004-present: EOS, our stewardship services team, was established in 2004. It now advises on £662.2bn. Through constructive executive and board-level dialogue, Annual General Meeting interventions and other engagement. EOS's engagements have:
  - Driven corporate-governance reform among UK and European companies, including stronger board renewal, gender and skills diversity and succession;
  - Improved corporate risk management, health and safety standards, and management of human capital benefitting workers;
  - Challenged companies to publicly commit to greenhouse-gas reduction targets, providing support to help achieve them;
  - Encouraged companies to take action to stop exploitation in their supply chains, such as technology firms reliant on cobalt for batteries and textile businesses procuring stock from developing-world factories; and
  - Mitigated emerging risks, such as cross-border cybersecurity and the potential for artificial-intelligence applications to exclude sections of the population.

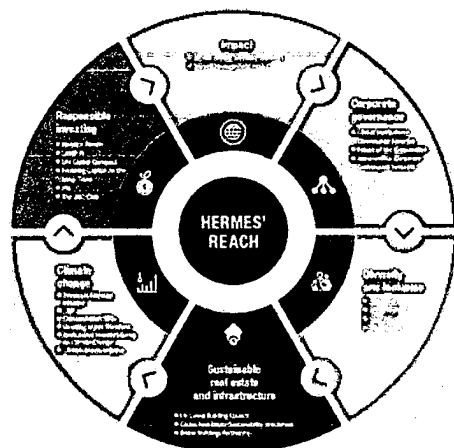
#### **Advocating progressive policies:**

- Principles for Responsible Investing (PRI): we led the working group that developed the PRI. In 2006, when they were launched, we became a founding member;
- We were a founding signatory of the International Corporate Governance Network, and provided input into the Japanese and Malaysian Stewardship codes; and
- We sit on 39 advisory boards or committees of prominent responsible-investment organisations, including:
  - PRI
  - Impact Management Project
  - CDP (formerly the Carbon Disclosure Project)
  - Council of Institutional Investors
  - Global Real Estate Sustainability Benchmark

# HERMES FUND MANAGERS LIMITED

## STRATEGIC REPORT (continued)

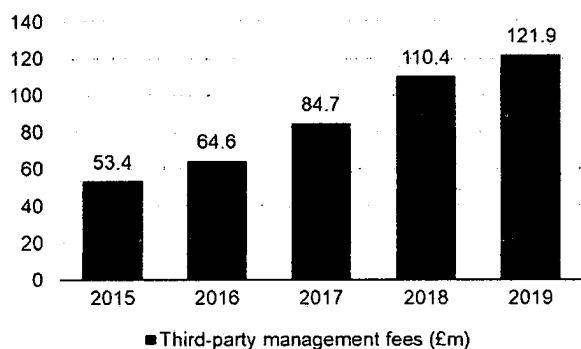
### OUR INVOLVEMENT IN SELECTED INITIATIVES, 2019



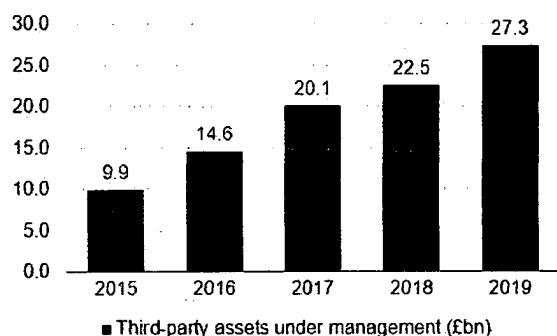
### Five-year views: charts illustrating our progress

The recent growth of Hermes is conveyed by the five following financial measures: third-party management fees, third-party assets under management, assets under stewardship, underlying profit and statutory profit and loss.

#### Third-party management fees



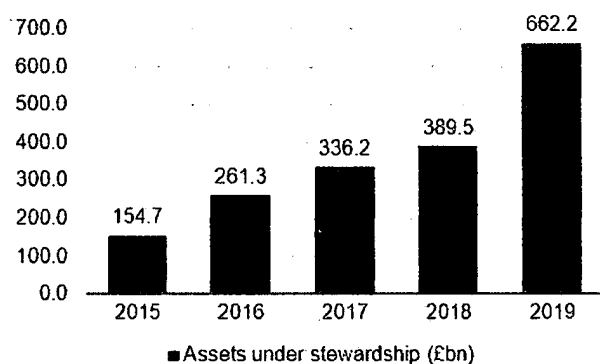
#### Third-party assets under management



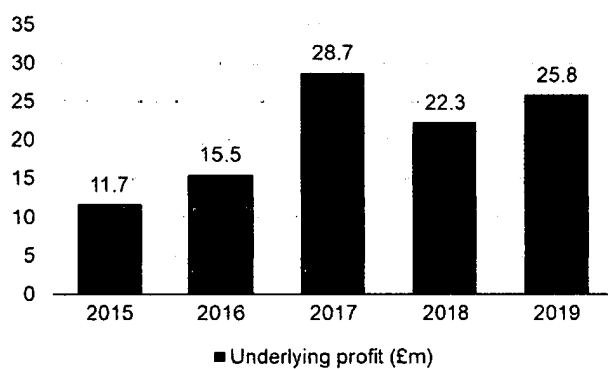
## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

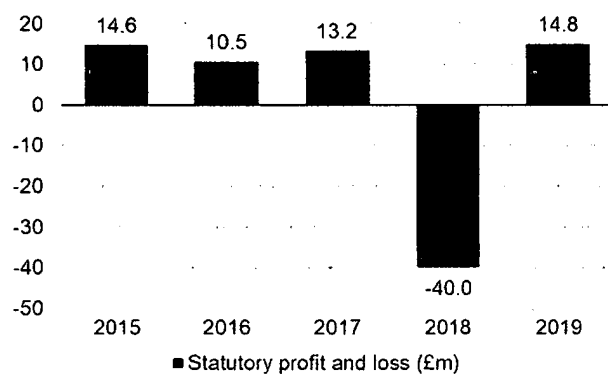
#### Assets under stewardship



#### Underlying profit



#### Statutory profit and loss before tax



## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

#### BUSINESS REVIEW

##### Financial highlights

	2015	2016	2017	2018	2019
	£m	£m	£m	£m	£m
Revenue	105.5	104.0	132.2	142.8	158.2
Administrative expenses	(95.5)	(99.3)	(124.2)	(182.8)	(145.8)
Non-operating items	4.6	5.8	5.2	-	2.4
Statutory accounts pre-tax profit/(loss)	14.6	10.5	13.2	(40.0)	14.8
Add back goodwill amortisation	1.3	1.3	1.3	1.3	1.0
Transaction expenses associated with change of control	-	-	-	62.9	-
Bonus deferral / retention	(1.3)	(2.0)	(2.6)	(6.8)	(3.0)
Regulatory change costs	(3.0)	-	1.1	1.6	-
Non-recurring performance fee crystallisation	(3.6)	3.6	-	-	-
Long-term incentive plan	3.1	3.6	14.9	4.4	12.6
Other	0.6	(1.5)	0.8	(1.1)	0.4
Underlying pre-tax profit	11.7	15.5	28.7	22.3	25.8

Information provided to the Board is prepared on an underlying basis as this is the most useful basis on which to manage the activities of the Group. This result excludes several items that are not fully within the control of management, these include goodwill amortisation, bonus deferral adjustments, the accounting impact of long-term incentive plans and foreign exchange retranslation of non-sterling denominated subsidiaries. 2018 included significant change of control expenses.

Revenue increased by 11% in 2019 to £158.2m. Excluding performance fees and carried interest, the growth in revenue was 5%. Growth in revenue is primarily driven by the growth in AuM, which was mainly driven by positive market performance. Net inflows were broadly flat with an increase of £0.2bn in 2019. BTPS continued their planned divestment from our public market strategies however this was offset with higher margin third party net sales which is in line with management's focus on the long-term growth of the business. Third party revenue now accounts for 82% (2018: 77%) of total revenue.

On an underlying basis the cost base rose by 13%, the primary driver being staff costs. Headcount grew by 7% in the year. This was a result of the establishment and staffing of our Dublin office and the European branches in Frankfurt, Copenhagen and Madrid. In addition, a stewardship hub was set up in Pittsburgh to allow EOS to carry out North American engagement locally and assist our parent with the integration of ESG and stewardship in their investment strategies. The total discretionary bonus pool for 2019 was £41.7m including national insurance contributions (2018: £40.4m).

#### Financial position

Management believes the Group has both the financial strength and capital resources to support and execute its strategic plans. The Board and executive leadership remain focused on growing and developing our core business and continuing to increase third-party assets and revenues.

Consolidated net assets as at 31 December 2019 were £123.1m (31 December 2018: £98.4m). The increase was mainly due to the underlying profit for the year. In addition, a further deferred tax asset of £4.3m was recognised in 2019 as the outlook for future profitability improved.

## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

Cash balances at 31 December 2019 increased to £89.9m (2018: £81.1m) mainly due to the underlying profit for the year.

#### Regulatory capital

The Group has Tier 1 regulatory capital of £104.2m, which was £66.7m above the FCA's capital requirement for the Group as at 31 December 2019 of £37.5m. Further details of the Group's approach to capital adequacy can be found on the Hermes website:  
<https://www.hermes-investment.com/ukw/about-us/policies-and-disclosures/>

#### Tax governance

The Group strives to act as a responsible global corporate taxpayer in compliance with applicable tax law and regulations, seeking to minimise the risk of uncertainty or disputes in tax matters. The Group seeks to comply with its tax filing, tax reporting and tax payment obligations in line with statutory timelines. Where appropriate, external advisers are engaged prior to the initiation of new activities or operations or in areas of complexity or uncertainty, to ensure that applicable tax rules are identified and followed. An important part of the governance process is the maintenance of a constructive and transparent relationship with HMRC.

The tax risk of the Group entities is managed by their executives and Board of Hermes Fund Managers Limited. Review of the key tax risks are performed on an ongoing basis and, where there is a material issue, matters are escalated to the respective Board and/or Risk and Compliance Committee.

The Group does not tolerate tax evasion, nor does the Group tolerate the facilitation of tax evasion by any person(s) acting on the Group's behalf.

#### Assets Under Management and Sub-Advice (in £bn)

At 1 January 2019	33.5
Inflows	8.1
Outflows	(7.9)
Net flow	0.2
Market movement	3.4
At 31 December 2019	37.1

Please note the total assets under management figure above for Hermes includes Hermes GPE LLP, which is a joint venture between Hermes and GPE Partner Limited ("HGPE"). At 31 December 2019 HGPE managed assets of £4.9bn (2018: £4.8bn) and sub-advised on assets of £1.3bn (2018: £1.7bn).

We secured 14 new clients in 2019, including 9 for EOS, bringing our total to 653. This resulted in £1.7bn in net inflows and £9.1m in annualised revenues from new clients, excluding those of EOS and our private markets business. This helped to offset the £1.6bn (annualised revenue of £6.4m) that BTPS redeemed from our strategies generally consistent with our pre-agreed flight path plan and drove us further on our growth trajectory.

## **HERMES FUND MANAGERS LIMITED**

### **STRATEGIC REPORT (continued)**

Our £37.1bn in AuM can be analysed by client type and geography as follows:

By client type:

- £23.4bn is managed for institutional investors;
- £13.7bn for wholesale clients;

By geography:

- £19.1bn is sourced from the UK and Ireland markets, a 2.1% annual decrease;
- £11.2bn is managed for European investors, a rise of 31.8% since 2018;
- £4.6bn is managed for clients in North America, up 27.8% in the past year;
- £2.0bn is managed for Asian clients and £0.2bn for MENA investors, marking increases of 5.2% and 29.9%, respectively.

EOS's AUA grew by £272.7bn (by 70%) in 2019 to reach £662.2bn. This not only demonstrates the increasing demand for engagement, advisory and intelligent voting services but also our expertise, experience and global leadership in this field. Importantly, our stewardship client base diversified further as more asset managers sought engagement services. The team engages on behalf of separate clients based in 13 countries in Europe, North America and the Asia Pacific.

Our established Global Emerging Markets strategy was the most successful in raising assets, attracting £725.5m in net inflows, followed by our Global Equity ESG capability with £428.2m. Our SDG Engagement Equity Fund gained net inflows of £148.5m, and we closed the third fundraising period for our European Direct Lending offering with €85m in commitments.



## **HERMES FUND MANAGERS LIMITED**

### **STRATEGIC REPORT (continued)**

#### **INVESTMENT REVIEW**

##### **Economic and market review**

The US recorded its longest period of economic expansion in mid-2019, based on official records dating back to 1854. Despite this feat by the world's largest economy, global economic growth slowed in 2019. The 2.9% rate of expansion marked a decline from 3.5% in 2018 and almost 4% the year before. Towards the end of the year, the global composite Purchasing Managers' Index stabilised at roughly its lowest level in three years before trending upwards slightly in December.

A dichotomy between the health of the consumer and manufacturing sectors persisted throughout the year. Consumption was supported by solid labour markets, with unemployment rates falling to multi-decade lows in Japan, the US and the UK, while joblessness declined to pre-financial-crisis levels in the eurozone. This contrast is unlikely to be sustained and, like much in the economic world at present, its trajectory will be determined by US-China trade talks and the monetary and fiscal policies of major central banks and governments, respectively. The labour market's ability to withstand deteriorating corporate sentiment will be key, as it could relay uncertainty from businesses to consumers.

Central banks responded to increased uncertainty and subdued inflation expectations by easing monetary policy throughout the year. The Federal Open Markets Committee ("FOMC") that makes rate decisions cut the US benchmark interest rate three times throughout the year to 1.5% and again in the first quarter of 2020. In its September 2019 meeting, the European Central Bank ("ECB") delivered a hefty easing package, which included the resumption of monthly quantitative easing on an open-ended basis. After a decade of unprecedented easing by the world's major central banks, there is debate about whether monetary methods to support markets and economies have been exhausted and growth-oriented fiscal policies from governments are needed to boost growth.

##### **2020 outlook**

At the start of this year, the global macroeconomic outlook seemed to have improved. Growth seemed to have stabilised as continued monetary-policy easing and the phase-one US-China trade deal brought relief to markets.

But the COVID-19 outbreak changed the outlook. As the number of global cases exceeded 100,000 in February and the virus took root in Europe, uncertainty intensified into panic. The failure of the Organisation of Petroleum Exporting Countries to reach an agreement with Russia to cut oil supply, which caused the oil price to plunge by 30%, triggered extreme market volatility on Monday 9 March 2020. Later in the week, the longest equity bull run in history came to an end as the epidemic was officially declared a pandemic.

Restrictions on the movement of people and disruption to employment practices in many countries will undoubtedly slow global growth in the first half of this year. At the time of writing, the 'v-shaped' precedent for the short but sharp economic impact of widespread viruses seems optimistic. A 'u-shaped' decline in output and bottoming out before any resumption of growth is a strong possibility. Developments in the second half of the year depend on whether the pandemic can be contained.

## **HERMES FUND MANAGERS LIMITED**

### **STRATEGIC REPORT (continued)**

Central banks around the world – from the US and UK to Australia and New Zealand – have slashed interest rates to support markets and economies. The UK and US have announced packages of fiscal stimulus which will be key in order to robustly counter a supply-side shock like COVID-19. Support measures for individuals and companies through the prudent use of fiscal stimuli and safety nets have now started to be implemented but there will be considerable medium term economic impact as a result of social distancing measures applied in Europe and the US.

As 2020 progresses, there will be other events to watch. These include the US election, the UK's post-Brexit trade negotiations and any resumption of US-China trade tensions. But at the forefront of our minds is COVID-19 and how it affects our people, and impact of the market shock on the portfolios we manage for our clients. As ever, we stand ready to defend investors' capital and act on opportunities in order to deliver long-term outperformance for investors and positive outcomes for the wider world – no matter how uncertain the outlook becomes.

The global economy is unpredictable. As such, all eyes will be on governments' fiscal policies this year. There is widespread agreement that fiscal stimulus should take a more active role, given the decreasing efficacy of monetary policy. Some governments have been quick to announce extensive fiscal support and others must now follow.

### **STAKEHOLDER ENGAGEMENT**

Section 172 of the Companies Act 2006 requires directors to promote the success of the Company for the benefit of all the members as a whole and in doing so have regard to the interests of stakeholders. We believe this to be consistent with our commitment to delivering holistic returns – outcomes that consider the impact our decisions have on society, the environment and the wider world and influences how we engage with our stakeholders. We aim to help people invest better and retire better, while at the same time creating a better society for all. In addition to the following summary table, information about how we do this is integrated throughout this annual report.

## HERMES FUND MANAGERS LIMITED

Stakeholders	Why they are important to us and how we engage	Key topics of engagement and outcomes in 2019
<p><b>Clients and beneficiaries</b></p>	<p>Consideration of clients and beneficiaries is integrated throughout our business. We believe we have a responsibility to lead the field in demonstrating we provide them with value for money through acting with integrity as skilled investors and good stewards of capital. We focus on delivering holistic returns, outcomes beyond financial performance, which relies on understanding our client and beneficiary needs first and must inform our investment processes, stewardship activities and public policy work. To do this we build close relationships with clients to better understand their financial needs and create wealth for them sustainably.</p> <p>Fair treatment of clients is central to Hermes' activities, and a key consideration for all governance bodies, including in the oversight of the creation and lifecycle of Hermes investment products. A robust policy framework supports this work, including a conflicts of interest policy and product development and review procedures.</p>	<p>Our stewardship and investment outcomes are described in more detail on page 17.</p> <p>In 2019 we strengthened our mission &amp; commitment to be a client centric business with the creation of the Global Client Group – which is tasked with putting the needs of our clients at the heart of our strategy, communications and relationship management. Combining Hermes' communications, relationship management and client service teams along with key client support functions like client reporting &amp; Request for Proposals ("RfP"), the Global Client Group is focused on delivering market-leading client experience for Hermes clients.</p> <p>We continued to work closely with our clients on meeting their investment and stewardship needs providing advice on policy, asset allocation strategy and best practice solutions in sustainability and responsible investment matters. For example, this year we worked in partnership with a client to develop a new product solution to meet their desire for a product that could invest in companies that demonstrate a willingness and ability to create a positive impact on society and the environment through engagement, whilst also improving their credit profiles. Identifying and understanding the needs of our clients and their ultimate beneficiaries is an important part of our work with our clients. We also meet and communicate on an ongoing basis on investment performance and attribution as well as key ESG metrics, to enable our clients to understand the reasons behind performance and consider their investments on a holistic return basis.</p>
<p><b>Suppliers</b></p>	<p>Like many businesses, we use external service providers to supplement our own infrastructure to satisfy our clients' needs. This enables us to provide a higher quality of service to our clients. The Group retains responsibility for the performance of our third-party providers.</p> <p>Hermes is committed to observance of all laws and regulations, including the Modern Slavery Act, and to the pursuit of honest and fair corporate activities that conform to the norms accepted by society. We aim to provide safe, reliable and efficient services whilst acting fairly and professionally. We have a Hermes Supplier Code of Conduct to which we require all suppliers to adhere to so that we can live up to this commitment.</p>	<p>This year we increased levels of due diligence to ensure we select suppliers who can work with us to deliver a high quality of service to our clients and who are aligned with our values. Our basic due diligence checks for all supplier's request information on the organisation's policies, tax facilitation, finance and compliance checks as well as asking suppliers to adhere to our code of conduct, with some completing an additional questionnaire to provide more detail on areas such as risk management. The enhanced due diligence, which covers our outsourcing suppliers, targets all levels of Information Security. Where necessary, we engage with suppliers on improvements and enhancements: in 2019 certain suppliers have strengthened their policies and increased security processes at our request, which benefits both parties.</p> <p>As at 31 December 2019, Hermes took an average of 24 days to pay our suppliers with our standard payment terms being 30 days. This compares favourably with many of our peers in the sector.</p>
<p><b>Staff</b></p>	<p>Our people's well-being and development are central to the ongoing success of our business. Staff are aligned to deliver on our mission so that we can achieve</p>	<p>We conducted an employee engagement survey and focus groups and based on the results identified several key work streams owned by the relevant members of the Executive Committee. We had a very high response rate and engagement (c.60 people attended the focus groups</p>

## HERMES FUND MANAGERS LIMITED

	<p>holistic returns for clients and beneficiaries in a number of ways, including being encouraged to sign the Federated Hermes Pledge; receiving market-aligned remuneration and benefits; receiving ongoing development support; and being encouraged to be collaborative and innovative through behavioural elements to the performance management framework.</p> <p>We recognise that diversity and inclusion are key to developing a wide-ranging outlook to meet client needs. Diversity and inclusion are promoted (though we recognise we have further to go as a firm) through: 'Unity', a staff diversity and inclusion network encouraging people to be themselves at work; talent development initiatives such as mentoring, coaching, unconscious bias training, mindfulness and financial wellbeing education.</p>	<p>and 75% responded to the survey) and our actions in response are described on pages 35-37. We will be increasing the frequency of our engagement survey to more regularly gather and monitor feedback (every other year with a 'pulse' survey in between).</p> <p>We established an Inclusion Committee, consisting of senior individuals across the business who are responsible for driving forward the inclusion strategy and holding the Executive Committee and the Board to account.</p>
<b>Society and the environment</b>	<p>We believe we should lead by example as a firm, actively working to promote wider societal benefit as well as good investment outcomes for our clients. We therefore strive to make a difference, both through the way we invest, which is with a focus on holistic returns, and, where possible, in how we contribute to wider society.</p> <p>As described throughout this report, we seek to deliver holistic returns for clients, meaning we consider the impact our decisions have on society and the environment. This is delivered through our investment approach; through both ESG integration and stewardship.</p> <p>We also have an operational focus, meaning we work to minimise the environmental impact of our operations and have a positive impact on the communities in which we are based and on wider society. We work with several community organisations and charities to do so.</p>	<p>We have continued our ESG integration and engagement work across asset classes, and policy advocacy to promote responsible investment practices and business conduct, on a range of environmental and social issues this year. More details can be found on page 17.</p> <p>In 2019 we planted 2,200 trees through Trees for Cities, to offset our operational emissions of 824 tonnes of CO<sub>2</sub> in the prior year. We have cut our annual energy consumption from 584,491 kWh to 452,443 kWh in 2019 and reduced paper usage from 9 tonnes in 2018 to 8 tonnes in 2019. We have also decreased our waste from 297,048 tonnes in 2018 to 146,166 tonnes in 2019. Our Task Force on Climate-related Financial Disclosures ("TCFD") report sets out our approach to climate change issues in more detail.</p> <p>Our internal Climate Change Working Group is focused on designing and implementing a strengthened climate strategy for 2020.</p> <p>36% of our staff participated in at least one community programme in 2019, using their skills, knowledge and networks to increase positive outcomes.</p> <p>We raised over £34,000 for our Charity of the Year 40tude in 2019.</p>

## HERMES FUND MANAGERS LIMITED

<p><b>Regulators and policy makers</b></p>	<p>Regulators have a legitimate interest in how we treat our clients and run our business. We believe that our clients' interests are best served when we engage constructively with our regulators. Proactive engagement on the future shape of regulation and policy in order to mainstream responsible approaches to investment is also key to delivering holistic return for clients.</p> <p>Our Head of Policy works with staff across the firm to ensure our advocacy work is well informed, relevant and impactful – aiming to lead not follow the policy debate. We aim to be constructive and use the experience and skills we have in-house to provide useful views and feedback to policy makers. We engage with regulators and policy makers through a variety of different means – bilaterally, alongside fellow investors and through collective initiatives. Day-to-day regulatory and legal change is managed by our Compliance and Legal teams.</p>	<p>We have engaged with a wide range of regulators and policy makers this year, including the European Commission and EU member states regarding elements of the EU Sustainable Finance legislation; the Competition and Markets Authority (CMA), BEIS and the independent Brydon and Kingman reviews on audit and accounting reform and the FRC on the reform of the UK Stewardship Code.</p> <p>We were pleased to see positive outcomes in a number of areas, with the European Commission continuing to move forward with its ambitious action plan, a range of reforms proposed on audit and accounting including the replacement of the Financial Reporting Council with Audit, Reporting and Governance Authority ("ARGA"), and ambitious reform of the UK Stewardship Code in line with our views which will create greater accountability of investors to clients and beneficiaries.</p>
<p><b>Shareholders</b></p>	<p>We rely on the support and engagement of our shareholders in order to deliver the holistic outcomes we strive to achieve for clients and end beneficiaries as well as our strategic objectives and plans to grow the business.</p> <p>Both our majority shareholder and minority shareholder have representation on the Company's board of directors as well as all the governance committees which are described in more detail in the Committee Reports section of these financial statements. Both shareholders are actively involved in all strategic decision-making.</p>	<p>Both our majority and minority shareholders, Federated Hermes and BTPS, respectively, are represented on our Board. Our CEO, Saker Nusseibeh, is a member of the Federated Hermes Executive Staff. Saker attended all committee meetings in 2019.</p>

## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

#### Brand recognition

Hermes excelled in the 2019 H&K Responsible Investment Brand Index (RIBI).

To compile the index, research firm Hirschel & Kramer analysed 220 asset managers' commitment to responsible investment and how integral this is to their brands. The former is demonstrated by concrete actions, such as committing to (and going beyond) the PRI and publishing details about their engagement and proxy voting activity. The latter is confirmed by the clarity of the manager's vision and purpose, given that a strong articulation of responsibility in a corporate brand can inspire and underpin everyday actions among employees.

We were included in the 17% of managers judged to be Avant-Gardists: firms committed to responsible investing and projecting this through their brand. Even better, we achieved the maximum rating for commitment to responsible investment, and a score of 4.14 out of a maximum of five for how responsibility is expressed through our brand. The average score for asset managers in the index was 2.5.



We continue to increase the strength of our brand in the UK, Europe and Asia, winning awards for the quality of our investment content and social-media influence. Federated Hermes is working to promote itself in North and Latin America and we continue to extend our marketing and communications campaigns deeper into Europe and Asia, employing and experimenting with print, digital and audio media to tell our story.

Below is a selection of the awards we were honoured to receive in 2019:

#### UK Pensions Awards

- Environmental, Social and Governance (ESG) Manager of the Year
- Property Manager of the Year

#### Wealth & Finance International 2019 Investment Fund Awards

- Best Responsible Investment Company - UK

#### Investment Week 2019 Specialist Investment Awards

- High Yield - Hermes Global High Yield Credit



## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

- Specialist Fixed Income - Hermes Multi Strategy Credit



### Pension & Investment Provider Awards

- Emerging Market Equities Manager of the Year

### Alternative Investment Awards 2019

- Best Impact-Focused Investment Manager 2019 - UK

### Investment Fund Awards

- Best Europe ex-UK Large-Cap Equity Fund (5 years): Hermes Europe ex-UK Equity Fund F GBP Acc

### The TRADE: Leaders in Trading 2019 Awards

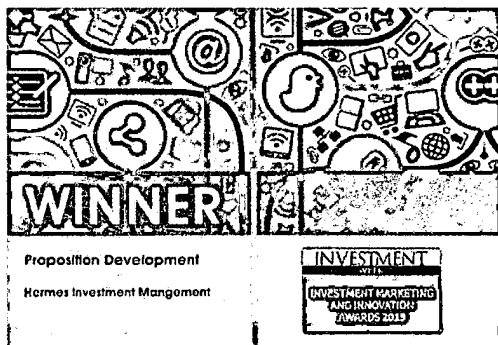
- Mid-cap Trading Desk of the Year

### Citywire Selector Service Awards 2019

- Best Overall Service - Switzerland and Liechtenstein

### Investment Week Investment Marketing and Innovation Awards 2019

- Best Proposition Development



## **HERMES FUND MANAGERS LIMITED**

### **STRATEGIC REPORT (continued)**

#### **Behaving as a responsible business**

##### **Climate risks**

Hermes measures and offsets its own operational carbon emissions by working with Trees for Cities. For every tonne of greenhouse gas emissions that Hermes generated from its day-to-day operations and its business travel during 2018, verified carbon offsets for 824 tonnes of CO<sub>2</sub> have been generated in 2019 by planting 2,200 trees. We were proud to maintain the ISO 14001 environmental management certification originally awarded when we moved offices in early 2018. More detail on the metrics we use to track our environmental impact can be found in our 2019 TCFD report.

We have a formal approach to the management of climate risk and opportunities that arise from the transition to a low-carbon economy, in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD). We integrate this approach in compliance, risk management and investment management, with the support of the Responsibility Office and the Climate Change Working Group, which reports into the board. We have published our strategy for managing carbon risk on an annual basis since 2015, most recently in our 2019 TCFD report. This report also sets out in more detail the metrics we use to track our progress.

As part of our climate risk strategy, we are developing a comprehensive portfolio climate risk and opportunity management process. The overlap between our investment and engagement activities acts as a continuous positive feedback loop. We apply this approach to each asset class, and we ensure that it is relevant to investors, portfolio managers and engagers and enables them to understand the key drivers of the transition, and challenge assumptions, either of companies or of third parties.

The Hermes Carbon Tool allows fund managers to assess their fund's carbon performance, carbon risk, and corresponding engagements with investee companies in a comprehensive manner. Assessing carbon risk through carbon foot printing is also a key means by which we identify companies with which we should initiate or intensify carbon-focused engagement. The tool also facilitates enhanced reporting to clients to demonstrate how ESG and engagement is being credibly integrated into the firm's fund and stewardship offerings.

Stewardship through advocacy and asset engagement is a crucial element of our climate change management approach. Engagement enables us to raise risks and controversies with asset boards and seek to address them. It also helps us to learn more about how companies and other assets are developing strategy and business plans to seize the opportunities as well as manage the risks that come from a changing climate and public policy and market responses to it. The EOS engagement programme has identified climate as a specific engagement focus. EOS has also taken an active role, including leading or co-leading on 27 companies, in the Climate 100+ initiative, a major global investor initiative, launched in 2017, that aims to help limit global warming to less than 2°C by engaging with more than 100 of the world's biggest greenhouse gas emitters.

The role of policymakers is key in determining the investment risks and opportunities created by climate change. We engage with public policy makers and sector organisations, nationally or internationally, to encourage policy or best practice. We are active members of, among others, the Institutional Investors Group on Climate Change, Climate Action 100+ and the Carbon Disclosure Project.



## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

#### Corporate citizenship

As an investor, we aim to play an important role in engaging companies on responsible business practices, including how they create shared value with communities. It follows that we are keenly aware of the need to build our own community programme to allow our people and our Company to make a difference locally where we operate.

Our employees participate in a wide range of ongoing initiatives with community partners. In addition to helping create a better world into which our pension beneficiaries can retire, this enhances our employees' ability to collaborate and lead, and their awareness of social issues that can inform our investment strategies. This year, 36% of our people have participated in at least one community programme.

The key themes of our community engagement programme are:

**Employability** - with the goal of tackling social mobility, ethnic diversity and gender balance to support young people into investment management roles and core functions. Volunteering activities include mentoring schemes, stock-picking workshops for students, mock interviews and working with local colleges to provide work experience to students;

**Social and financial inclusion** - we have a range of programmes aimed at improving social and financial inclusion, from reading and number support at local primary schools to supporting elderly members of our community get to grips with technology and internet safety; and

**Strategic advice for charities and community organisations** - we have worked with Business in the Community to provide strategic advice workshops for charities from our front office. In 2019, we also ran a workshop for staff on how they can become Trustees for charities.

## **HERMES FUND MANAGERS LIMITED**

### **STRATEGIC REPORT (continued)**

#### **Employee alignment**

##### **The Federated Hermes Pledge**

Each of our employees is asked to sign the Federated Hermes Pledge (formerly the Hermes Pledge) which aligns employee behaviours to the company's mission and objectives.

The Federated Hermes Pledge, which is voluntary, has been signed by 99% of employees.

#### **OUR PLEDGE**

The Federated Hermes Pledge underpins our Group-wide commitment to always put clients first, and to act responsibly and transparently.

I pledge to fulfil, to the best of my ability and judgment and in accordance with my role, this covenant:

- I will act ethically, responsibly and with integrity;
- I will put the interests of our clients first, consistent with our fiduciary responsibilities;
- I will encourage responsible behaviour in the firms in which we invest and on which we engage;
- I will act with consideration for our community and the environment both now and in the future and I will encourage others to do the same;
- I will work with industry colleagues and other key stakeholders to develop and improve our industry's contribution to society;
- I will treat my clients, my colleagues and all other stakeholders with dignity and respect and as I would wish to be treated;
- I will deal with our regulators in an open, co-operative and timely way; and
- I will communicate clearly and honestly with all parties inside and outside our firm
- I will manage conflicts of interest fairly between all parties.

## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

#### Employee alignment (continued)

##### Attracting and developing talent

Our growth will continue to be driven by the values and performance of our people. From recruitment to development, we focus on building a firm populated by excellent and collaborative people motivated by our purpose and opportunities to excel. This underpins positive relationships throughout the firm and our ability to embrace change in the pursuit of outcomes beyond performance.

Investment management is a people business. From investment to operations and business development, people make all the difference. Therefore, attracting talent and investing in the progression of our employees is crucial to our continued success. It is the responsibility of every leader and manager throughout Hermes to create an environment where all our people can improve their knowledge and skills, feel valued and perform at the highest level.

	2019	2018
Number of employees	415	388
Employee turnover	12.0%	11.0%

While some employee turnover is inevitable, and indeed desirable as it can bring fresh thinking to the business, the group strives to maintain a low employee turnover rate to help deliver the group's stated business objectives. To develop future talent within the business, Hermes provides a suite of management programmes that span induction, skills and technical development, management development and professional studies. To support our employees outside work, the team also arranges frequent educational sessions about pensions and financial planning.

##### Diversity and inclusion

We recognise that a diverse and inclusive workplace provides real benefits to employees and supports stronger long-term business performance. Although Hermes has a long-standing commitment to these agendas, we know we need to do more in order to truly advance them within our own organisation. Making these improvements to create a positive impact within Federated Hermes will require changes across the entirety of the firm. In the past year, we have focused on evaluating our policies and actions to date and conducted an in-depth review to understand what more we can do. Following this, the Hermes' Executive Committee (ExCo) and Board have endorsed a diversity and inclusion (D&I) strategy and a three-year implementation plan that will be reviewed on a regular basis.

Our mission is clear. It is to foster and promote a culture of inclusion which celebrates all forms of diversity, enables our people to maximise their potential, and encourages innovation and creativity. This enables us to become an employer of choice, support our wider responsibility aims and strive to deliver the best holistic returns for our clients.

In alignment with this mission, the objectives and actions of our D&I strategy are focused on three key themes: leadership, practices and people, and the environment. These themes encompass all areas of our business, enabling greater D&I integration throughout the firm.

In 2019 we conducted an employee-engagement survey and focus groups, to seek views and feedback of our current culture and identify any gaps in our past efforts.

## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

The results highlighted our areas of strength – our people are proud to work at Hermes and are clear on our core business values and what we stand for. The results confirmed that employees value our support for our wider community and feel we are ahead of our peers in the market when it comes to demonstrating responsible ESG behaviours.

The feedback we received on areas for development, can be grouped into the following themes:

- Communications – *how we communicate updates and strategy to employees*
- Diversity and inclusion – *how we can demonstrate D&I in our decision making*
- Transparency – *increased clarity on the expectations on employees at each job grade*
- Policies – *enhancements to our flexible working policies*

The results of the survey have been shared with Hermes' ExCo and Board and we have made progress against each of these areas. Progress to date includes:

- We will be scheduling Town Halls more frequently – approximately every two months – and we will also be investigating other internal communication methods;
- We have run Inclusive Leadership training for all Executive Directors in September and October 2019 and this training was rolled out to all line managers in March 2020;
- We will be reviewing the behaviour framework in Q1 2020 with a view to developing a competency framework which sets out expectations for each job grade;
- We have reviewed and proposed changes to our family friendly policies which will be rolled out in Q2 2020, and we have relaunched our flexible working policy as 'agile' to promote a greater agile working culture throughout the firm; and
- We are working with our Facilities team to address many of the suggestions around improving our recycling practices and we have already replaced paper cups with office mugs and replaced cereal packaging with reusable containers.

Looking beyond our own D&I practices, we will also advocate D&I throughout the asset-management industry and more broadly. We are already members of a number of networks and forums – including the Diversity Project, the 30% Club, Investment20/20 and the Employers Network for Equality & Inclusion – and will continue to look for more opportunities to collaborate and share best practices so that working in asset management is attractive and accessible for all.

We will continue to progress our plan by focusing on the attraction, retention and development of employees to create a positive impact firm-wide and we remain committed to ensuring this is seen as a priority.

#### **Gender diversity**

Our D&I objectives cover the broad scope of these agendas. Further actions regarding gender diversity that we take are supporting the Women in Finance Charter and Gender Pay Gap reporting regulations.

#### **Women in Finance Charter**

Having achieved our original 2019 targets (set in 2016), we are now aiming for new 2021 targets as detailed below. We have already made progress against these targets and are currently on track to achieve them by 2021, however, we appreciate there is much work still to be done. We will continue to progress our plan by focusing on the attraction, retention, and development of women at Hermes to create a positive impact firm-wide and we remain committed to ensuring this is seen as a priority.

## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

#### Gender diversity: employed women across Hermes' business\*

	2021 Target	Sept 2019	Sept 2018	Sept 2017
<b>Firm-wide</b>	45%	42%	40%	39%
<b>Board</b>	35%	31%	31%	29%
<b>Senior management</b>	35%	31%	28%	23%

\* Does not include Federated Hermes, Inc. figures.

#### Gender pay gap

We welcome the attention that the gender pay gap reporting regulations have given to the gender and wider D&I agendas, and we will continue to report annually on Hermes' mean and median pay and bonus gaps. In doing so, we will keep interrogating the data to understand what is causing our pay gap as well as what needs to be done to close it. The Gender Pay Gap remains above the expected levels both for Hermes and the industry as a whole.

#### Board diversity

Fully aware that a wealth of deep and broad experience and perspectives at the highest level are instrumental in successfully guiding a business, we are committed to diversity in the boardroom. As at 31 December 2019, four of the 13 Directors (31%) on Hermes' Board are women. Specific criteria govern our appointments to the Hermes' Board, including appropriate expertise and experience alongside all measures of diversity. We expect that long and short lists of candidates reflect these requirements.

#### Equal opportunities policy

We believe in equal opportunities for all and aim to ensure that no current or prospective employee is treated less favourably on the basis of their gender, race, ethnicity, religion or belief, gender identity or expression, marriage or civil partnership, pregnancy and maternity, age, sexual orientation, or disability.

#### London Living Wage

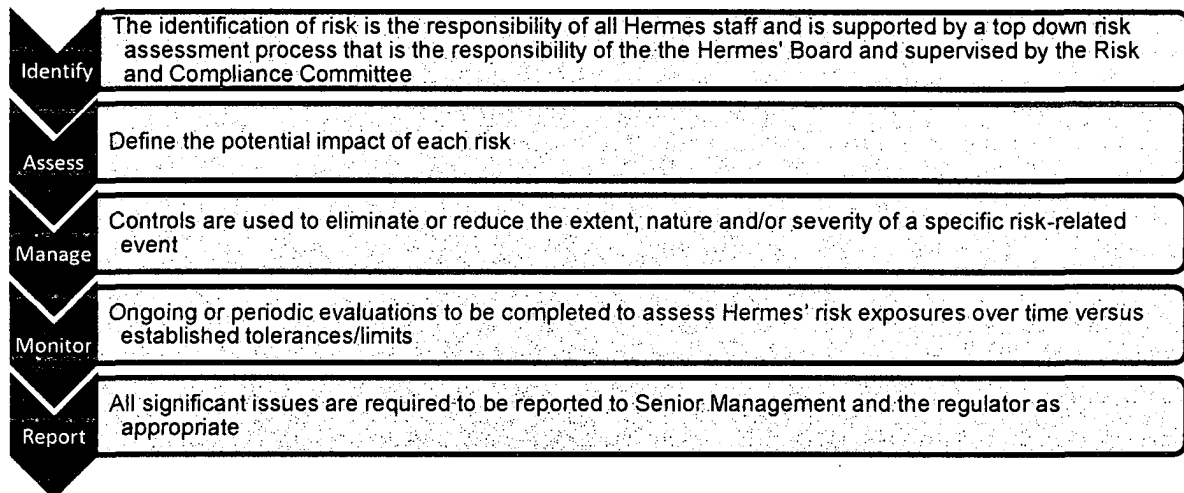
Since 2012, Hermes has been accredited as a Living Wage employer, affirming its commitment to provide all employees and on-site contracted staff with compensation and benefits above the London Living Wage.

#### Risk Management

Hermes recognises that the management of risk as part of our everyday activities is essential to support the achievement of our strategic objectives. Effective risk management is fundamental to safeguard the interests of our clients and other key stakeholders. The Board of Directors of Hermes is ultimately responsible for maintaining and reviewing the effectiveness of risk management and internal controls and for determining the nature and extent of the risks it is willing to accept in achieving its strategic objectives. To help the Hermes' Board discharge its responsibilities, the Group has a comprehensive Risk Management Process.

STRATEGIC REPORT (continued)

Risk Management Process



The risk management process plays an essential role in the Company with the aim of providing adequate and continual support to the Board in order for them to understand, identify, measure, manage and mitigate risk to which Hermes is exposed. Hermes is subject to the requirement to have adequate governance frameworks in order to monitor those risks.

**Risk management framework**

The risk and control framework at Hermes sets out the overall approach to manage the internal and external risks to which the firm is currently exposed or may be exposed to in the future. Underpinning this framework are several supporting Risk Policies that describe the principles, the approach to risk management and define the content of the risk management process pursuant to the risks to which the firm is exposed.

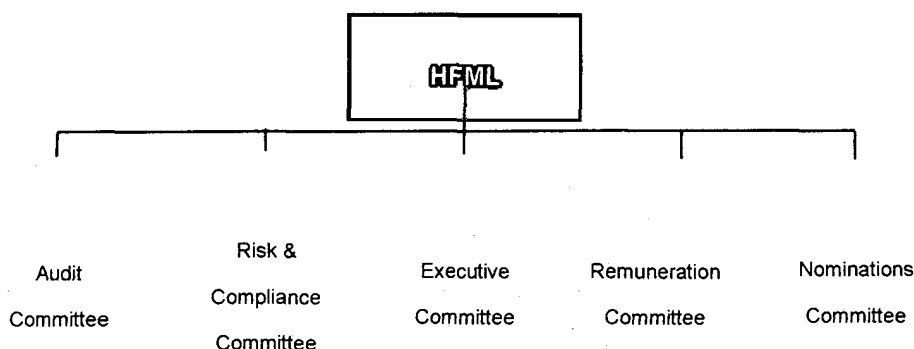
The Risk Management Framework is founded on three pillars:

**1. Risk appetite** - Risk awareness is at the heart of our strategic planning process, supporting organisational decision making. Formulation and delivery of plans enable the management of business performance against strategic objectives. Our Risk Appetite is set by the HFML Board and details the amount of risk it is prepared to accept in conducting its business and in pursuit of its strategic objectives, after consideration of risk-reward trade-offs. Risk Appetite sets the framework for the development of corporate strategy and the risk framework.

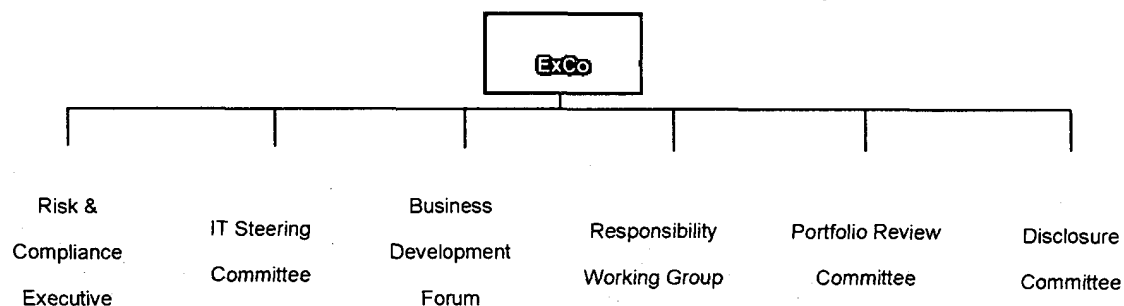
**2. Corporate governance** - The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal controls and for determining the nature and extent of the risks it is willing to accept in achieving its strategic objectives. For the Board to accomplish its responsibilities, it has established a governance framework consisting of the following committees:

## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

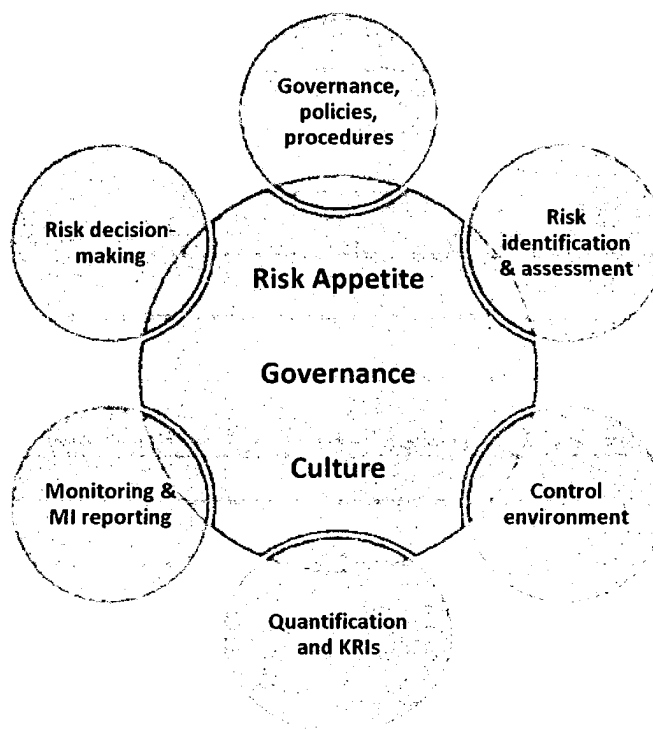


Day-to-day management of the business has been delegated by the Hermes' Board to the Hermes' CEO, who has established an Executive Committee (ExCo), as well as several oversight committees to support the governance framework, namely:



**3. Culture** - A policy management framework and a set of Group policies support the delivery of the organisation's strategy by establishing operating principles and standards for managing risks across the organisation.

STRATEGIC REPORT (continued)



**Capital Adequacy**

The Internal Capital Adequacy Assessment Process (ICAAP) brings together risk management and monitoring of the Group's ongoing capital requirements. Specifically, the ICAAP quantifies the impact of Hermes' Board's ongoing assessment of the Group's risks, anticipates the management actions it can take, and ascertains the amount of current and future capital that is required to enable the Group to endure. The ICAAP is embedded within the culture, systems, controls and governance of Hermes and a review as to its adequacy is formally undertaken at least annually, with more frequent updates made as necessary if a material change occurs. Stress and scenario testing have been developed in order to test the robustness of the Group's regulatory capital against a variety of events. Further details of the Group's approach to capital adequacy can be found on the Hermes website: <http://www.hermes-investment.com/en-gb/literature.aspx>

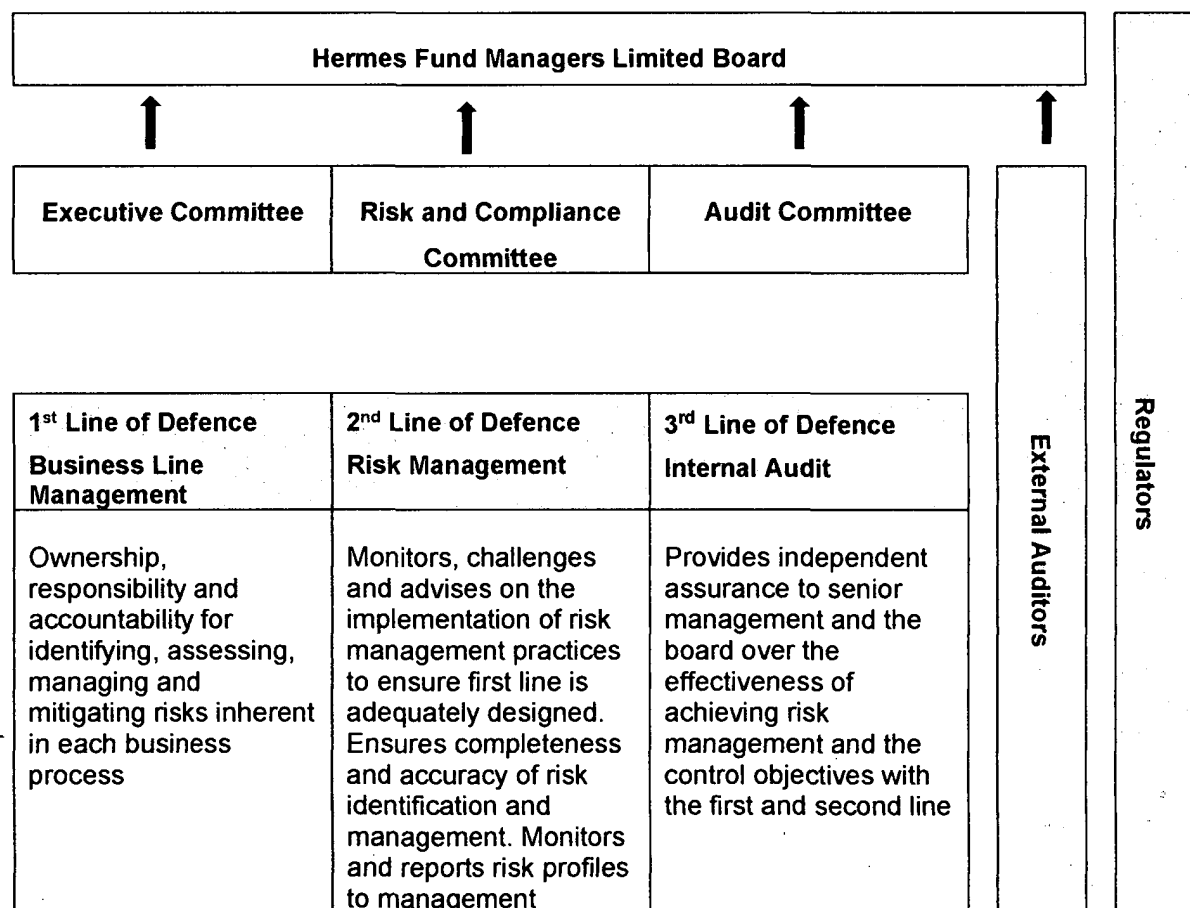


## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

#### Three lines of defence

The Hermes Risk Management Framework is underpinned by a three lines of defence model with defined responsibilities for risk management which are designed to deliver the standards of conduct that our stakeholders expect.



## HERMES FUND MANAGERS LIMITED

### STRATEGIC REPORT (continued)

#### Principal Risks and Mitigants

The following section shows our assessment of the top 16 risks that we face, and that may affect, potentially in a material way, Hermes' business, results of operations, financial condition and/or cash flows, along with whether the significance of the risk has changed during the year. All our Key risks are grouped according to high level classification

- Business risk;
- Operational risk; and
- Market and financial risk (includes risk categories in respect of capital, credit and liquidity).

These risks are not static. New and emerging risks are considered and assessed by the Hermes' Board throughout the year for possible inclusion in this list. During the post year end period, the COVID-19 outbreak, which has been declared a Pandemic by the World Health Organisation, emerged as a new risk that poses a significant threat to the Global Economy and UK business. The impact has been assessed by the Group and our responses documented below in the sections on Operating Model, Outsourcing and Technology.

#### Business Risk - Risk Profile 2019 vs 2018 (Increased)

Hermes continued to focus on organic growth in 2019 with the Board reconfirming its agreement with the Group's strategy. Increased geo-political instability in the wider macro environment, as discussed in the Investment Review, increased business risk in 2019.

Risk	Mitigants
<b>Strategy</b> The risk that Hermes does not meet its long-term strategic objectives. The risk includes external threats such as further shifts in investor preference towards passive investing, technological innovation and/or new market entrants within the industry reducing profitability and requiring fundamental change to the business model.	<p>Hermes has outlined its strategic aims, which is supported by the business operating model. Strategic planning includes an assessment of risks, client impact and consideration of Risk Appetite and capital. Indicators and financial metrics are in place to monitor progress against strategic objectives.</p> <p>A diversified range of products is offered, with regular new product launches to ensure that the offering remains in keeping with changing client requirements.</p> <p>A range of distribution channels mitigates against an excessive dependency on any single sales channel.</p>
<b>Investments</b> The risk that portfolios will not meet their investment objectives adversely affecting levels of new business or fee income. This risk includes poor performance, liquidity, capacity and/or counterparty management subsequently leading to reputational damage. The risk also includes failure to apply acceptable standards of stewardship and responsible investing as well as breach of investment mandates.	<p>The Hermes Investment Risk Framework provides monitoring and challenge of investment risks and investment performance across teams.</p> <p>The Hermes Investment Office independently monitors risk and seeks to ensure the rigour of team strategies. Investment teams adhere to clearly defined investment processes including pre and post trade compliance.</p> <p>The Responsibility Office independently assesses the level and progress in stewardship and ESG integration activities.</p> <p>Various management committees such as the</p>

## HERMES FUND MANAGERS LIMITED

	Liquidity Valuation Capacity and Pricing committee and Portfolio Review committee are in place, to provide scrutiny over investment positions held.
<b>Loss of Key Client</b> This risk relates to the loss of a key client or group of clients resulting in a detrimental impact on Hermes.	This risk is mitigated by the Company growing its third party offering, and diversifying its client base, whilst continuing to meet the requirements of its clients and stakeholders.
<b>Sales</b> Failure to meet sales targets, the pressure on revenue streams from inadequate distribution channels and the competitive pressures on distribution.	<p>Sales teams develop comprehensive sales strategies by region and channel in conjunction with the Head of Business Development. Delivery of sales strategies and performance against targets is regularly monitored.</p> <p>Distribution and investment teams work closely with the sales staff with the objective of remaining well briefed on product characteristics. Oversight is also placed on third party distributors.</p> <p>Several training sessions are run by Compliance. Financial promotions are subject to regular Compliance approval and monitoring.</p>

### Operational Risk – Risk Profile 2019 vs 2018 (Increased)

Operational risk has increased with growth of third-party clients, development of our distribution strategies and development / diversification of our product range, consequently these drivers have increased the complexity of our operating model.

Risk	Mitigants
<b>Operating Model</b> The risk that the operating infrastructure is not fit for purpose, is inefficient or not scalable, failing to support strategic growth plans. The risk that process failure results in heightened operational risks, errors and breaches. This risk includes the impact on business continuity planning.	<p>Operational policies and procedures are reviewed and updated periodically and available to all staff. A robust governance structure exists with Board-level committees, e.g. Risk &amp; Compliance Committee, Audit Committee, to review priorities, operational progress against plans, risks/issues etc</p> <p>Operational support to the business is based on middle office processes and controls that are performed in-house and back office processes undertaken by third-party service providers. The Operations department oversees that back-office operations perform in accordance with expectations and to defined tolerances.</p> <p>A business continuity programme is in place, all teams have a Business Continuity Plan and an Incident Management Team (IMT) has been established with regular testing. Regular tests are planned in conjunction with IMT and in accordance with the policy timeframe. A register of issues is kept, and appropriate actions are taken to address matters in a timely fashion.</p> <p>In March 2020 the Business Continuity Plan was</p>

## HERMES FUND MANAGERS LIMITED

	<p>fully deployed following the COVID-19 outbreak and the related UK government advice. All Hermes' offices were closed, and all staff were required to work from home for the foreseeable future. Technological solutions, such as video conferencing capabilities were accelerated to assist working from home. The IMT are closely monitoring and managing the performance of working from home and will continue to do so over the medium term to ensure no impact on business as usual activities.</p>
<p><b>Change</b></p> <p>The risk that Hermes fails to deliver a major change initiative in a controlled and timely manner, or the risk that the initiative does not deliver expected benefits. This risk includes the failure for new ventures to align with the culture and vision of Hermes and the organisation stress or process failures through potential demands on staff and resources. Change risk includes the governance for products and sales (distribution / channels). Change risk also negatively impacts associated risks such as technology and cyber security risk.</p>	<p>There is in place a comprehensive Change Governance process including a dedicated Change Management Committee which reports to ExCo. Two members of Hermes' ExCo are represented on this Committee. No change initiative can be actioned by Hermes without it being approved by the Change Committee. All change initiatives are managed and overseen by a dedicated Change Management function.</p>
<p><b>Employee</b></p> <p>The risk that key staff across the business leave without an identified successor (key person risk) or that significant numbers of staff resign due to other factors within our 'control' such as (competitive) remuneration, culture or training</p>	<p>To mitigate people risks, the Company has competitive remuneration and retention plans, with appropriate deferred benefits targeted at key employees. Hermes puts in place sustainable succession and development plans. Clear objectives are set, and success is measured in the annual review process, allowing the Company to identify motivational development initiatives for its staff including regular and sufficient training</p>
<p><b>Regulatory / Legislative</b></p> <p>The risk of regulatory or legal action resulting in fines, penalties, censure and/or legal action arising from failure to identify or meet regulatory and/or legislative requirements in those jurisdictions in which Hermes operates. This includes the risk of financial crime and that new regulations, or changes to the interpretation or implementation of existing regulations affect the Company. This risk includes the risk that tax regulations are not understood, implemented and complied with.</p>	<p>The Compliance, Risk, Finance and Legal functions support front line staff to consider carefully the obligations Hermes assumes and compliance with them.</p> <p>Hermes maintains compliance procedures and compliance with relevant regulatory requirements is monitored in accordance with a risk-based programme.</p> <p>Key regulatory change risks are identified by Compliance as part of regulatory change monitoring and are also included on an Emerging Risks Assessment where appropriate.</p>
<p><b>Outsourcing</b></p> <p>The risk that outsourcing plans are not aligned to the wider strategy or that outsourcers fail to deliver the services required. The risk includes the failure of Hermes to oversee the outsourced relationship and additional technology and cyber security risks associated with outsourced service provision.</p>	<p>Before entering into outsourcing arrangements, Hermes undertakes due diligence on outsource providers. A programme of regular oversight and assessment against agreed service levels is in place, overseen by the Outsourcing Review Group.</p> <p>Following the COVID-19 outbreak, our main outsourcing provider Northern Trust deployed its own business continuity processes. It closed its</p>

## HERMES FUND MANAGERS LIMITED

	main offices in India and enforced working from home across its group. Key activities relating to the services performed for Hermes were transferred to the UK and Irish operations and Hermes' management continues to closely monitor the service levels.
<b>Fraud</b> The risk of internal and external fraud resulting in such impacts as payments to unauthorised / fraudulent accounts, management accounting irregularities, theft of intellectual property and unauthorised access to sensitive data.	An extensive system of internal controls is in place including segregation between front and back offices, payment controls (e.g. authorised signatories and limits, independent approval by Middle Office cash management), oversight by senior management and pre and post trade checks carried out (some automated and some manual).
<b>Technology &amp; Information Security</b> The risk that technology systems and support are inadequate or fail to adapt to changing requirements. The risk that systems are vulnerable to third party penetration, insider risk, or that technology solutions are not resilient and cannot continue to operate to an acceptable standard in the event of adversity/disaster. The risk includes the threat of a cyber-attack and a breach of data protection.	Hermes relies on technology and qualified professionals to maintain its infrastructure and invests in IT accordingly. Disaster recovery plans are maintained and back-up plans are tested regularly. Service level agreements are in place with all third-party service providers in an effort to ensure the required level of information security is maintained. Following the outbreak of COVID-19, all staff were required to work from home. Remote access capabilities coped well with the increased demand and video conferencing and instant messaging technology were also put in place to ensure that staff could work effectively from their homes. Hermes' management continues to monitor information security and the performance of the I.T. infrastructure.
<b>Conduct &amp; Culture</b> Misconduct / market abuse potentially causing loss to Hermes and/or compromising Hermes' reputation. E.g.: unauthorised / excessive activity, abuse of authority, insider trading, trader operating in an inappropriate manner, failing to uphold the integrity of the markets, personal account dealing, and the risk of mis-selling / misrepresentation of products to clients and prospects. This risk includes the risk of employee grievance and litigation. This risk includes the risk that tax regulations are not understood, implemented and complied with.	Responsibility, appropriate conduct and a principled approach to treating investors fairly, are integral to Hermes' culture. This culture is set via 'tone from the top' and is underpinned by 'Responsibility', which is explicitly stated as one of Hermes' core values and is included in the Federated Hermes Pledge.
<b>Reputation / Brand</b> Reputational risk relates to the Federated Hermes brand, press and marketing activity as well as ethics, trust, relationships with stakeholders, partners and clients, conduct and the overall culture and values of Hermes. Reputational risk can arise from any of the key risks outlined.	Hermes engages in proactive communications with all stakeholders and monitors media coverage to understand how the Federated Hermes reputation is perceived. Reputational risk is a key consideration in any strategic decision.
<b>Products</b> Product risk arises when products either do not meet their performance objectives or are inappropriate for certain clients. Product risk can also arise from capacity constraints where the	Hermes has a dedicated Product Development team and a product approval and review procedure. The suitability of products for clients is carefully considered and products offered are matched against client needs. Hermes monitors

## HERMES FUND MANAGERS LIMITED

size of assets under management in a particular asset class or strategy makes it more difficult to honour liquidity expectations of clients. Product risk includes the pressure on revenue streams from not having the right mix of products or high concentration of AuM in products.	<p>potential capacity constraints and mitigates them by restricting or preventing inflows into products where necessary.</p> <p>Specialist resources are used if Hermes cannot fully support products / instruments. Appropriate legal agreements are in place for all new products / instruments.</p> <p>Product Development Policy, New Instrument Approval Policy and New Market Approval Policy are all approved and communicated.</p>
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### Financial Risks – Risk Profile Outlook – Stable

Hermes understands that within financial risk many Geo- political / Market risk events are outside of the control of the organisation and that a downturn in economic conditions could impact the Group's performance through lower demand for its investment management products, and lower investor risk appetite as a result of financial-market instability. Hermes maintains a strong capital position and increased its regulatory capital in 2019 through its profitability. See page 23 for the Group's regulatory capital.

Risk	Mitigants
<p><b>Geo-Political / Market</b></p> <p>Risks associated with political matters which could impact the governmental system and damage the economy and, therefore, impact Hermes negatively (e.g., reduced earnings). Market risk arises from market movements, which can cause a fall in the value of principal investments and a decline in the value of AuM.</p>	<p><b>Foreign Exchange ("FX") exposures:</b> To the extent that the Group's proprietary cash holdings in any currency are greater than the working capital requirements, these amounts are converted into Sterling to minimise the FX exposure. FX forward contracts are in place to reduce future earnings exposure from FX movements in foreign currencies.</p> <p><b>Balance sheet investments:</b> The Hermes' Board has a limited appetite for market risk; therefore, Hermes only holds proprietary investments for hedging purposes with the exception of seed capital. These investments are used to hedge the valuation movements on bonuses (Co-investment) that are linked to the value of Hermes' funds. Seed capital is used to launch new products where management believes there will be clear client demand. A seed capital policy operates that governs amounts and duration of investment.</p> <p><b>Investment products:</b> Hermes offers a diversified and broad product range which provides clients with solutions tailored to a variety of market conditions and serves to diversify individual market dependencies. Scenario analysis and impact is undertaken independently by the investment office to assess the performance of portfolios under a stressed environment.</p>

## HERMES FUND MANAGERS LIMITED

### Financial Soundness

Risk of financial failure arising from lack of capital, liquidity or counterparty (credit) failure for Hermes. This risk relates to the Hermes' own balance sheet and not the investment products.

**Counterparty (credit) risk:** Hermes has credit risk in relation to its own balance sheet, specifically: exposures to market counterparties (e.g. banks) where Hermes cash is held; and fees receivable from clients. Finance oversees regular monitoring of market counterparties and outstanding fees receivable.

**Liquidity risk:** Monthly cash forecasts are prepared based on projected revenues and approved cost budgets with the aim being to ensure sufficient liquidity is available at all times. Cash held on deposit is used as a liquidity source. As at 31 December 2019 current assets significantly exceed current liabilities, with liquid cash reserves comprising approximately 67% of total current assets, demonstrating the ability of Hermes to meet current liabilities as they fall due in the ordinary course of business. Hermes maintains a high level of liquidity to ensure that the regulatory solvency requirements are continuously met. Hermes believes that a tolerance level of 1.25 x current liabilities should be maintained in each entity. i.e. liquid resources are maintained at that minimum level.

**Capital risk:** Senior management, with support from Finance, monitor the current and projected capital resources and changing requirements. The Hermes' Board maintains a level of solvency capital that meets the requirements of local regulators, including an acceptable margin of comfort above the local statutory requirements.

## **HERMES FUND MANAGERS LIMITED**

### **STRATEGIC REPORT (continued)**

#### **ASSESSMENT OF VIABILITY**

In accordance with the UK Corporate Governance Code, the Directors of Hermes have carried out a robust assessment of the key risks facing the Group and expect that the Group will continue to be viable for at least the next five years.

##### **Assessment of prospects**

A five-year period to December 2024 is in line with the Group's strategic business planning and forecasting period.

The Group's strategic and financial planning process includes a detailed review of the business, key planning assumptions and the risks detailed on the previous pages. Risks are identified through the Internal Capital Adequacy Assessment Process ("ICAAP") which is a continuous process where risks are monitored and mitigating action taken if necessary.

Two of the key assumptions underpinning our financial planning process include:

- AuM growth in both local and foreign markets resulting from the Business Development Growth Plan undertaken by Hermes and Federated Hermes;
- Diversification of revenue streams including expansion of product offerings into fixed income and private markets.

##### **Assessment of viability**

The assessment of the Group's viability requires the Directors to consider the principal risks that could affect the Group. The Directors review the key risks on an annual basis through the ICAAP and at least quarterly through the Risk and Compliance Committee. Stress testing is performed on the Group's business plan, which considers the impact of several of the Group's key risks crystallising over the assessment period.

The severe but plausible stress scenarios applied to the business plan include the following:

- Key person risk – the heads of the two largest revenue generating strategies resign; and
- Combined market events – world markets fall by 20%, GBP strengthens 15% against USD, and sales targets not achieved.

Both of the above stress tests were included in the ICAAP. In addition, during the post year end period prior to approving the financial statements the Group carried out further analysis of its ICAAP stress scenario relative to current market data as impacted by the COVID-19 pandemic and conducted a reverse stress testing analysis to determine the levels to which flows and markets would need to fall in order for the Group's surplus regulatory capital to be eliminated.

Having reviewed the results of the stress scenario, the Directors have concluded that the Group would have sufficient capital and liquid resources in the above scenarios and that the Group's ongoing viability would be sustained.

Approved by order of the Board of Directors and signed on behalf of the Board:



**S A Nusseibeh**  
Chief Executive Officer  
9 April 2020



## HERMES FUND MANAGERS LIMITED

### DIRECTORS

The Board comprises the following Directors:

Name	Biography
D Stewart* (Chairman)	David is currently a Director of IMM Associates, Chairman of Caledonia Investment Trust, and a Non-Executive representative on the MacMillan Cancer Care Investment Committee. He was appointed as non-executive director of Marathon Asset Management in October 2019. His prior experience includes nine years at Odey Asset Management, initially as CEO and latterly as a Non-Executive Director until standing down in December 2014. Before that, David's career encompassed Fidelity Investments (1994-2005), James Capel (1986-1994) and Swire Pacific Ltd, Hong Kong (1981-1986).
S A Nusseibeh	<p>Saker is Chief Executive of Hermes. He was appointed CEO in November 2011 having joined Hermes in June 2009 as CIO. Prior to joining Hermes, Saker was Global Head of Equities at Fortis Investments, having initially been appointed as Fortis CIO Global Equities in 2005. Before this he was CIO of Global Equities and Head of Marketing for SGAM UK. This role followed SGAM's acquisition of Trust Company of the West ("TCW"), where Saker was a Managing Director, running global and international strategies, as well as managing TCW's London office. He started his career at Mercury Asset Management in 1987.</p> <p>Saker is the founder of the 300 Club, a group of leading CIOs and investment professionals who seek to challenge investment orthodoxy. He is a member of the CFA Institute's Future of Finance Advisory Council, a member of the IIRC Council, and the FCA-PRA Climate Financial Risk Forum, as well as the United Nations Environmental Programme Financial Initiative Steering Committee. He sits on the Banking Standards Board, which was created as a result of a Parliamentary enquiry to restore trust in the UK banking industry. Saker also sits on UK National Advisory Board on Impact Investing.</p> <p>In the 2020 New Year's Honours List Saker was awarded a Commander of the British Empire, in recognition of his services to the development and promotion of Responsible Business and for contributions more broadly to the finance industry in the UK. In 2015, Saker was named CEO of the Year at the Global Investor Investment Excellence Awards and, in 2018, he was named CEO of the Year at the Financial News Asset Management Europe Awards.</p>
S James*	Sally was appointed Non-Executive Director of Hermes in April 2017. Sally served as Managing Director and General Counsel of UBS Investment Bank EMEA from 2001 to 2008. Previously she held several senior legal roles in investment banks in London and Chicago. She has been a Non-Executive Director of Moneysupermarket.com Group plc since April 2013 and now Senior Independent Director; a Non-Executive Director of Rotork plc since May 2012 and now Senior Independent Director; and a Non-Executive Director of Bank of America Merrill Lynch International Limited since February 2016 (now Bank of America Merrill Lynch International DAC).

## HERMES FUND MANAGERS LIMITED

### DIRECTORS (continued)

W McClory****	Billy was appointed Non-Executive Director of Hermes in August 2010. He was employed by Post Office Telecommunications from 1968-78 and became a National Officer of CPSA and then NCU in 1984, and CWU in 1995. At NCU he was responsible for pension matters in the Post Office and BT, and he was the lead officer on pension matters for the BT Unions from 1990-97. He is a Trustee Director of the BT Pension Scheme and a member of the National Federation of Occupational Pensioners. He is a Trustee of the National Communications Union Staff Superannuation Scheme and was Chair of its trustee board until 2011.
H Steel	<p>Harriet is Head of Business Development at Hermes, a member of the Executive Committee and an Executive Board Director. She joined the Company in 2011 with responsibility for Sales, Client Service, Marketing, Communications and Product Strategy. Harriet was appointed to the Board of Hermes in 2013, becoming Hermes' first female Executive Board Director.</p> <p>Prior to joining Hermes, Harriet led Portico Advisors, an asset raising and marketing advisory firm for alternative investment managers, including hedge funds, private equity and real estate strategies, which she founded in 2003. Her earlier career included roles in capital markets at Morgan Stanley and at Bankers Trust, where she started her career in 1990.</p>
D Watson*	David is an Associate of the Institute of Chartered Accountants in England and Wales and was appointed Non-Executive Director of Hermes in July 2011. Currently, David is Senior Independent Director of Countrywide plc, Senior Independent Director at TR Property Investment Trust plc, and is the Chairman of Kames Capital plc and Chair of its Audit and Risk Committee. Prior to joining the Hermes Board, David was the Chief Financial Officer (CFO) of Aviva General Insurance UK Division, and between 2003 and 2007 he was the CFO of Morley Fund Management, the asset management arm of the Aviva Group. Before this, he spent nine years at M&G Group Plc (now M&G Investments), where he was Group Finance Director, responsible for financial management and strategic development of the group.
G Ceresino**	Gordy is Vice Chairman of Federated Hermes, Inc., President of Federated International Management Limited and Executive Director for international distribution. He is responsible for leading, developing and executing the firm's global business and distribution plan. Gordy joined Federated in 2006 when the firm acquired MDT Advisers of Boston, where he served as Chief Executive Officer. Gordy is an Executive Board Director of Federated Investors Canada ULC, Federated Investors (UK) LLP, Federated Investors Cayman Islands, and Federated Investors Singapore.

## HERMES FUND MANAGERS LIMITED

### DIRECTORS (continued)

D Cunningham**	<p>Deborah Cunningham, CFA – Chief Investment Officer, Global Liquidity Markets, Senior Portfolio Manager, Executive Vice President, Federated Hermes, Inc.</p> <p>Debbie is Chief Investment Officer of Global Liquidity Markets. She joined Federated Hermes in 1981 as a performance analyst and has more than 30 years of investment experience. Since 1990 she has been a portfolio manager for all government and prime liquidity products. In 1994 she took over the management of the taxable liquidity group. In addition to the domestic taxable liquidity portfolios, Debbie also oversees the management of the domestic tax-exempt liquidity portfolios, as well as the offshore liquidity products. She is a current member of the CFA Society of Pittsburgh and previously held the title of Director and President of that organisation.</p>
T Donahue**	<p>Thomas Donahue – President, FII Holdings, Inc., Chief Financial Officer and Treasurer, Federated Hermes, Inc. and Director, Federated Hermes, Inc.</p> <p>Tom joined Federated Hermes in 1993 as a Vice President and currently serves as the Company's Director and Chief Financial Officer, and is a member of its executive committee. Prior to joining Federated Hermes, Tom was in the venture capital business, and from 1983 to 1987 was employed by PNC Bank in its Investment Banking division.</p>
J Fisher**	<p>John is President and Chief Executive Officer of the Federated Advisory Companies. In this role since 2006, John provides overall leadership to Federated Hermes' investment management organisation, which employs more than 225 investment professionals. Joining the firm as a regional marketing representative in 1979, John rose through the distribution channel, serving in a variety of positions, culminating with him being named president of Federated Securities Corp., Institutional Division, prior to taking his current position. John is a member of the executive committee, Vice President and Director of Federated Hermes, Inc., and either principal executive officer or a board member of several Federated mutual funds.</p>
J E. Lambesis**	<p>Jane E. Lambesis – Senior Vice President, Regional Sales Consultant, Federated Hermes, Inc. Jane joined Federated in 1987 and is Senior Vice President of Sales. She specialises in consulting to individual financial advisors and their teams regarding income planning, manager search and selection, investment portfolio design and monitoring.</p>
D McAuley III***	<p>Denis McAuley III – Vice President and Director of Corporate Finance of Federated Hermes, Inc., also Chairman and Director of various International subsidiaries and funds run by subsidiaries of Federated Hermes, Inc. Denis joined Federated Hermes in 1978 as an internal auditor and moved on to become Vice President, Manager of Corporate Accounting. In 1985, Denis assumed the position of Vice President and Manager, Fund Accounting. In 1989, he assumed the position of Senior Vice President and Chief Financial Officer of The National Funds in Greenwich, CT. Denis returned to Federated Hermes in 1993 as Senior Vice President of Corporate Finance and became Principal Accounting Officer in 2001, a position he held until 31 March 2013.</p>

## HERMES FUND MANAGERS LIMITED

### DIRECTORS (continued)

T W Zierden III**	Theodore W Zierden III – President, Administration, Federated Services Company. Ted manages the Business Information Services Division. He also oversees the Investor Services Division, a group providing client and fund shareholder servicing, key fund vendor management, literature publishing and fulfilment services, and data stewardship of the client relationship management system. Ted also manages the Alliances Department, which is responsible for Federated Hermes, Inc.'s merger and acquisition process. Ted began his career at Federated Hermes in 1994.
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\* Independent non-executive directors

\*\* Federated Hermes, Inc. nominated directors

\*\*\* Federated Hermes, Inc. nominated non-executive director

\*\*\*\* BTPS nominated non-executive director

The table below reflects the Board members attendance during 2019.

Member	Attendance
David Stewart	6/6
Saker Nusseibeh	5/6
Sally James	6/6
Billy McClory	5/6
Harriet Steel	5/6
David Watson	6/6
Gordy Ceresino	6/6
Deborah Cunningham	6/6
Tom Donahue	5/6
John Fisher	5/6
Jane Lambesis	5/6
Denis McAuley	6/6
Ted Zierden	5/6

## **HERMES FUND MANAGERS LIMITED**

### **REPORT OF THE AUDIT COMMITTEE**

#### **STATEMENT FROM THE CHAIR OF THE AUDIT COMMITTEE**

I am pleased to present the Audit Committee report for the year ended 31 December 2019.

The Audit Committee operates as a body established from non-Executive Directors of the Hermes Board and is charged with independent oversight of the financial affairs and control processes in operation within Hermes. Ernst & Young LLP operated as independent auditor of the Hermes Group for the year.

David Watson  
*Audit Committee Chairman*

#### **MEMBERSHIP**

All members of the Audit Committee ("the Committee") are Non-Executive Directors of Hermes Fund Managers Limited including Denis McAuley who is employed by our parent company Federated Hermes, Inc. but acts as a Non-Executive Director at Hermes. Members of the Committee have been appointed by the Hermes Board by virtue of their previous financial services experience, senior executive experience and relevant accounting knowledge. The Committee oversees the Group's financial and operating controls framework on their behalf. Committee membership remains unchanged since Denis McAuley's appointment in July 2018 and comprises four members, David Watson (Chair), Billy McClory, Sally James and Denis McAuley.

Biographical details and experience of all members are detailed on pages 49 to 52.

#### **RESPONSIBILITIES**

The Committee's primary role is to assist the Hermes Board in fulfilling its oversight responsibilities. The scope includes, but is not limited to:

- reviewing and challenging, where appropriate, the actions and judgements of management in relation to Hermes' financial statements, business review and any related formal statements before submission to, and approval by, the Board;
- reviewing the adequacy and security of arrangements for the Group's employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, and reviewing procedures for detecting and preventing both fraud and bribery;
- monitoring and reviewing the activities, processes and performance of both internal and external audit, including the external auditor's independence;
- reviewing and challenging, where appropriate, the management framework, systems, processes, procedures and controls in relation to all investment management activity and administration services that Hermes has contracted to provide to its clients;
- reviewing going concern and the viability of the Group;
- approving non-audit services provided by the independent auditor;
- conducting an annual review of the Committee's Terms of Reference to ensure that they are relevant and correct; and
- monitoring the design and operational effectiveness of internal controls in line with Section 404 of the U.S. Sarbanes Oxley Act of 2002.

## HERMES FUND MANAGERS LIMITED

### REPORT OF THE AUDIT COMMITTEE (continued)

Committee attendance in 2019

Member	Attendance
David Watson (Chair)	5/5
Billy McClory	5/5
Sally James	5/5
Denis McAuley	5/5

### THE COMMITTEE'S WORK IN 2019

#### Sarbanes-Oxley Act of 2002 ("SOx")

As a consolidated subsidiary of Federated Hermes, Hermes was required to comply with the requirements of SOx for the first time for the year ending 31 December 2019.

In order to meet the SOx reporting requirements, Hermes established, with the support of Federated Hermes, a framework to enable management to identify key processes and controls, document the design of these controls and test their operating effectiveness during 2019.

The requirements of SOx reporting have necessitated a change in the Group's financial reporting framework and changes have been implemented to define specific control attributes and to provide and demonstrate appropriate evidencing of these controls. The Committee has overseen the implementation of a SOx compliant control framework with the benefit of regular updates from relevant internal teams.

Work of the Committee during 2019 outside of the regular agenda items comprised of:

January	<ul style="list-style-type: none"><li>• Execution of a 'Getting to Green Plan' for IT projects with a view to prioritising controls over in-scope SOx applications.</li><li>• Review of the accounting policies estimates and judgements in the 2018 Annual Report.</li><li>• Recommendation that the Board approve the External Auditor Independence Policy.</li></ul>
March	<ul style="list-style-type: none"><li>• Recommendation that the Board approve the 2018 Annual Report.</li><li>• Consideration of a resolution for a Reduction of Capital.</li></ul>
May	<ul style="list-style-type: none"><li>• Review of the ICAAP 2019.</li></ul>
July	<ul style="list-style-type: none"><li>• Approval of the 2019 statutory audit plan and consideration of the Financial Reporting Council's Report in relation to the Audit Quality of EY LLP.</li><li>• Review of SOx compliance status.</li><li>• Internal Audit Plan update</li></ul>
November	<ul style="list-style-type: none"><li>• Consideration of the application of the policy for recognising deferred tax assets and liabilities.</li><li>• Review of accounting treatment for leases under FRS 102 (the Financial Reporting Standard applicable in the UK).</li><li>• Progress update on the wind down of Hermes European Equities Limited.</li><li>• SOx and IT controls update delivered by Internal Audit</li><li>• Approval of the annual Internal Audit Plan</li></ul>

## **HERMES FUND MANAGERS LIMITED**

### **REPORT OF THE AUDIT COMMITTEE (continued)**

#### **SIGNIFICANT ACCOUNTING ISSUES**

During the year the Audit Committee considered key accounting issues in relation to:

##### **Deferred tax assessment**

In 2018, Hermes management determined that it was probable that £14.5m of deferred tax will be recoverable against future taxable profits. Based on forecasts at the time this equated to a three-year earnout. Considering the results for 2019 and projections over the internal planning period, Hermes management has determined that it is now probable that £18.8m of deferred tax asset will be recoverable against future taxable profits (this equates to a five/six-year earnout). The Committee reviewed management's proposals and, after challenge and debate agreed that a greater recovery should be anticipated.

##### **Revenue recognition of carried interest and performance fees**

The Committee monitors revenue recognition in accordance with FRS 102.

During 2019, an investor sold its interest in one of the private equity funds managed by the Group's joint venture, Hermes GPE LLP. This disposal gave rise to a crystallisation of carried interest. The third party that acquired the stake introduced certain warranties into the sale agreement (that expire in September 2020) that could require a clawback. As a result, management proposed to reduce the value of this entitlement by 20% and recognised only £5.1m as revenue for the year ended 31 December 2019 to reflect the uncertainty.

Separately, certain performance fee arrangements crystallised during 2019 and entitlements were calculated based on the latest available net asset values and benchmark data, both of which remained subject to change at the year-end. Management applied a 5% reduction to the Group's fee entitlements for revenue recognition purposes to reflect the uncertainty.

The Committee reviewed both approaches to revenue recognition and, after challenge and debate, agreed that the treatments were appropriate.

##### **Post balance sheet events**

The audit committee considered the impact of COVID-19 on the Group's financial statements. Having reviewed additional stress testing analyses and operational updates from the business, the Committee was satisfied the impact of COVID-19 has been adequately disclosed as a non-adjusting post balance sheet event.

#### **EXTERNAL AUDITOR**

The Committee carried out a review of the effectiveness of the external audit process performed by Ernst and Young LLP ("EY LLP"). Considering the FRC Audit Quality report on EY LLP and on completion of the audit and having considered the views of the Committee and of management, the Committee concluded that they were content with their quality and effectiveness. EY LLP were subsequently proposed to be reappointed as independent external auditor.

The Committee carefully monitors and approves the extent of non-audit services carried out by EY LLP aiming to ensure that these remain within the guidelines of EU related legislation relating to caps on non-audit fees. The Group remained within these guidelines during 2019.

## **HERMES FUND MANAGERS LIMITED**

### **REPORT OF THE AUDIT COMMITTEE (continued)**

The external auditor attended all Committee meetings in 2019 and in 2020 up to the date this Annual Report was signed. At each meeting they presented reports and updates to the Committee, including a confirmation of independence at the planning and conclusion stages of the audit. They provided reports on topics such as the control environment, key accounting matters and mandatory communications.

The Committee monitors its policy on the use of EY LLP since appointment for non-audit services to ensure independence. EY LLP will only be appointed to perform non-audit work when they are best suited to do so and there is not a conflict of interest. Any non-audit work performed by EY LLP requires approval by the Committee.

Hermes does not fall within the definition of a public interest entity ('PIE') and therefore does not need to comply with EU-related legislation relating to caps on non-audit fees. However, the Committee carefully monitors the extent of such fees and the resulting ratio of non-audit to audit services and aims for these to remain within the guidelines of this legislation.

### **INTERNAL AUDIT**

Internal Audit is independent of management and reports directly to the Committee. The team has unrestricted access to all functions, property, systems, records and staff as required to accomplish its audit objectives, including the permission to co-source with external advisers. Internal Audit operates a risk-based audit cycle based on an assessment of risks within the Hermes Group. The annual audit plan is presented to the Committee for approval, and for amendments where necessary.

The Head of Internal Audit has regular meetings with the Chairman of the Committee and attends all meetings of the Committee to present reports on the Internal Audit findings and on the proposed future audits and audit plans. The Committee continues to monitor the internal audit plan on an ongoing basis to ensure that it remains relevant to the needs of the business and to allow it to be adapted or changed as required.

The Committee is satisfied that the quality, experience and expertise of the Internal Audit function is appropriate for the business, and it periodically commissions external effectiveness reviews of Internal Audit in line with best practice.

### **EVALUATING PERFORMANCE OF THE COMMITTEE**

The Terms of Reference for the Committee will be reviewed and updated in the second quarter of 2020, alongside an annual performance assessment of the Committee. The results of which will be considered by the Committee and the Hermes Board in July 2020.



## HERMES FUND MANAGERS LIMITED

### REPORT OF THE RISK AND COMPLIANCE COMMITTEE

#### STATEMENT FROM THE CHAIR OF THE COMMITTEE

I am pleased to present the Risk and Compliance Committee (the "Committee") report for the year ended 31 December 2019. The Committee is integral to the Hermes' governance and risk management frameworks.

During the year the Committee focused on assessing the risks associated with the new ownership structure and the management of such risks; reviewing and challenging the ICAAP, in particular the stress testing methodology and analysis; overseeing progress and implementation of the Senior Managers Certification Regime; overseeing progress and compliance with SOx; and worked to assess potential risks that may arise from Brexit and steps taken to mitigate the risks.

Sally James  
*Risk and Compliance Committee Chair*

#### MEMBERSHIP

All members of the Committee are Non-Executive Directors of the Hermes Fund Managers Limited including Denis McAuley who is employed by our parent company Federated Hermes, Inc. but acts as a Non-Executive Director at Hermes. Members of the Committee have been appointed by the Hermes Board by virtue of their previous financial services experience, senior executive experience and relevant accounting knowledge. The Committee oversees risk management, governance and compliance on behalf of the Board.

The Committee currently comprises five members, Sally James (Chair), David Stewart, David Watson, Billy McClory and Denis McAuley. There have been no changes to the Committee since Denis McAuley's appointment in July 2018.

Biographical details and experience of all members are detailed on pages 49 to 52.

The table below reflects the Committee attendance during 2019.

Member	Attendance
Sally James (Chair)	4/4
Billy McClory	4/4
David Stewart	4/4
David Watson	4/4
Denis McAuley	4/4

#### RESPONSIBILITIES

The principal role of the Committee is to provide oversight and challenge on risk exposures taking into account risk appetite and to advise the Hermes Board on risk strategy including capital and liquidity management. Responsibilities include:

- Overseeing Hermes' risk management framework and the integrity and effectiveness of risk management, governance and compliance activity within the Group;
- Reviewing the methodology and assumptions used in Hermes' models for determining its regulatory capital, and satisfying itself that the models are fit for purpose;

## **HERMES FUND MANAGERS LIMITED**

### **REPORT OF THE RISK AND COMPLIANCE COMMITTEE (continued)**

- Overseeing the management of relationships and registrations with regulatory authorities and reviewing developments and prospective changes in the regulatory environment;
- Ensuring alignment of strategy with the Board's risk appetite;
- Overseeing outsourced services;
- Reviewing the adequacy and resources of the Group's Risk and Compliance function; and
- Reviewing and approving the AAF 01/06 internal controls assurance report.

In carrying out its duties, the Committee is authorised by Hermes' Board to obtain any information it needs from any Director or employee of the Group. The Strategic Risk and Compliance Director (assisted by the Head of Risk) reports directly to the Committee. In addition, the Committee regularly receives updates from other individuals across the business. In 2019 attendees included the Chief Executive, Chief Operating Officer, Head of Information Technology and the Head of Office, Ireland.

The Committee is also authorised to seek appropriate external professional advice whenever it considers this necessary.

#### **THE COMMITTEE'S WORK IN 2019**

The main focus of the Committee's work in 2019 was a continuation of the Brexit planning carried out in 2018. As previously reported, Hermes' Irish subsidiary's (Hermes Fund Managers Ireland Limited ("HFMIL")) regulatory permissions were granted by the Central Bank of Ireland on 11 December 2018; these permissions mitigated the potential loss of 'passporting' rights should the United Kingdom ("UK") leave the European Union ("EU") without a deal.

The investment management of Hermes Investment Funds Plc., a UCITS fund range, along with certain alternative investment funds was transferred to HFMIL in the first quarter of 2019. The Board of HFMIL places reliance on the work of the committee to support its own assessments.

In 2019, regulatory permissions were granted for European branches of Hermes Investment Management Limited ("HIML") in Copenhagen, Denmark and Frankfurt, Germany. Both branches subsequently became branches of HFMIL. The Danish branch transfer was effective 1 November 2019 and the German transfer was effective 1 January 2020. Approval of a third branch of HFMIL in Madrid, Spain is expected in 2020.

Areas reviewed and challenged included:

- Ensuring compliance with local legislation and regulations in Ireland, Denmark, Germany and Spain;
- Review of legal documentation such as fund documentation and delegation agreements in place between HIML and HFMIL;
- Implementing Hermes' Group policies with the aim of ensuring compliance with local laws;
- Managing the different temporary permission regimes in place to continue servicing existing segregated accounts from the UK, in the event the UK leaves the EU without a deal;
- Plans for managing the functionality of the risk and compliance functions in non-UK locations;

## HERMES FUND MANAGERS LIMITED

### REPORT OF THE RISK AND COMPLIANCE COMMITTEE (continued)

- Managing the correspondence with different regulatory bodies across the jurisdictions;
- Alignment of certain policies and procedures between Hermes and Federated Hermes, Inc.;
- Change programme delivery;
- Implementation of the Senior Managers and Certification Regime; and
- Development of Risk and Control Self-Assessment capabilities feeding into enhanced risk reporting.

The Committee operates a rolling agenda which comprises both recurring and time specific items. Items that are regularly reviewed by the Committee include Compliance and Risk Management Information, progress of major regulatory projects, conflicts of interest, conduct risk and policy updates.

Work of the Committee during 2019 outside of the regular agenda items comprised of:

January	<ul style="list-style-type: none"><li>• Central Bank of Ireland authorisation and the transfer of client AuM to the Irish subsidiary</li><li>• ICAAP 2019 planning</li><li>• Senior Managers and Certification Regime update</li></ul>
May	<ul style="list-style-type: none"><li>• ICAAP 2019 update</li><li>• Update on the potential impact on Hermes of the transition from LIBOR</li><li>• Money Laundering Reporting Officer's Report</li><li>• CASS audit</li></ul>
July	<ul style="list-style-type: none"><li>• Approval of ICAAP 2019</li><li>• Sox Section 404 risk assessment</li><li>• Central Bank of Ireland Dear CEO letter</li></ul>
November	<ul style="list-style-type: none"><li>• Information Security Framework</li><li>• Review of Hermes mitigants and controls in response to the collapse of the Woodford funds and Capital Group</li><li>• Senior Managers and Certification Regime update</li><li>• Change Programme and prioritisation</li></ul>

### OTHER KEY AREAS OF WORK COVERED IN 2019

#### Internal Capital Adequacy Assessment Process ("ICAAP")

A new regulatory Group was formed following the transaction to acquire a majority share of Hermes by Federated Hermes, Inc. For 2019 the new Group included two other Federated Hermes subsidiaries (one UK domiciled and one Irish domiciled) which increased the complexity with regards to the Group's combined risk appetite. The ICAAP informs Hermes' Board of the ongoing assessment of the Group's risks, anticipates the management actions it can take and ascertains the amount of current and future capital required to protect the Group against the potential financial implications of these risks. The Risk & Compliance Committee's role included both reviewing and challenging the ICAAP and recommending its approval to Hermes' Board.

## **HERMES FUND MANAGERS LIMITED**

### **REPORT OF THE RISK AND COMPLIANCE COMMITTEE (continued)**

#### **Senior Management and Certification Regime (“SMCR”)**

SMCR replaced the Approved Persons Regime on 9 December 2019. This regime raises the level of standards of personal conduct and emphasises management accountability. The Committee has overseen the implementation of SMCR, with particular focus on:

- Statement of Responsibilities;
- Identification of certified staff;
- Training and competence;
- Conduct rule breaches; and
- Company culture.

#### **PRIORITIES FOR 2020**

As well as considering the rolling agenda and ad hoc items, the Committee focuses on upcoming risks that are likely to be faced by Hermes. The following areas are considered to be key for 2020:

- SOx integration into Risk & Control Self-Assessment process;
- Information Security continuous improvement plan to enhance resilience;
- Change Programme delivery and prioritisation including new product launches;
- Enhancements to market abuse surveillance system capabilities and monitoring;
- Risk reporting continued evolution including enhanced control assessment;
- ICAAP review of approach for Group consolidation; and
- Focus on regulatory change such as LIBOR transition and Cost Transparency Initiative.

#### **EVALUATING THE PERFORMANCE OF THE COMMITTEE**

The Terms of Reference for the Committee will be reviewed and updated in the second quarter of 2020 following implementation of the Senior Managers and Certification Regime, alongside an annual performance assessment of the Committee. The results of such review will be considered by the Committee and Hermes' Board in July 2020.

## **HERMES FUND MANAGERS LIMITED**

### **REPORT OF THE REMUNERATION COMMITTEE**

#### **STATEMENT FROM THE CHAIR OF THE COMMITTEE**

2019 has been a successful year for Hermes, with both long-term and short-term investment performance outperforming its benchmarks, in a year where most others have had net outflows, we have seen growth in both assets under management and for assets for which we provide stewardship services.

The Remuneration Committee (the "Committee") believes that remuneration must be aligned with long-term performance, reflect strong risk management and encourage a responsible culture with regard to both investments and relationships with key stakeholders.

The Committee believes that this a key driver for success over the long term. On an underlying basis, the total compensation is largely unchanged year on year.

The Committee continues to remain mindful of ensuring that remuneration is appropriate in light of industry challenges and remains clear of any bias or protected characteristic including but not limited to gender, race, and disability.

The Committee continues to focus on its targets with respect to the Gender Pay Gap and those agreed under the Women in Finance charter explained further in this report.

David Stewart  
*Remuneration Committee Chairman*

#### **MEMBERSHIP**

The Remuneration Committee is constituted as a Committee of the Hermes' Board. Membership of the Remuneration Committee is formed by the Chairman of Hermes and other Directors who are appointed in line with the business needs of the Group.

The Remuneration Committee currently comprises David Stewart (Chair), Billy McClory, David Watson, Sally James, Thomas Donahue, John Fisher and Gordy Ceresino.

The primary focus of the Committee continues to be centred on advising the Hermes' Board on remuneration matters. This advice takes shape through policies and plans that are designed to motivate and retain high-calibre executive directors, senior management and staff.

This report continues to place an emphasis on remuneration disclosure in 2019, ensuring continuous improvement in both the transparency and detail of the Group's remuneration reporting.

## HERMES FUND MANAGERS LIMITED

### REPORT OF THE REMUNERATION COMMITTEE (continued)

#### RESPONSIBILITIES

The Committee's primary responsibilities are to assist and advise the Hermes' Board regarding the following:

- agreeing the broad policy and framework for the remuneration of the Chief Executive Officer, other executive directors of the Company, and senior managers whose compensation is over a certain threshold;
- determining the overarching principles and parameters of the remuneration policy on a Hermes Group-wide basis, excluding Hermes GPE LLP, which is a joint venture and HFMIL, which has its own committee;
- establishing and maintaining a competitive remuneration package to attract, motivate and retain high-calibre executive directors and senior management across the Group;
- aligning senior executives' remuneration with the interests of shareholders and relevant remuneration legislation;
- ensuring compliance with the FCA and other regulators' rules with regards to remuneration; and
- reviewing and approving the annual objectives for executive directors of Hermes' Board, in accordance with its Terms of Reference, against which their performance for remuneration purposes will be measured.

#### Committee attendance in 2019

Member	Attendance
David Stewart (Chair)	3/3
Sally James	3/3
Billy McClory	3/3
David Watson	3/3
Gordon Ceresino	1/3
Tom Donahue	3/3
John Fisher	3/3

#### WORK OF THE COMMITTEE DURING 2019

During the year the Committee received and approved updates on the continued development of the Hermes remuneration policies and structure, including:

- recommending a remuneration policy and remuneration policy statement to Hermes' Board;
- continuing to apply regulations to compensation matters, and monitor developments of new regulations and government policies; and
- approving remuneration proposals across salary, bonus and Long-Term Incentive Plan ("LTIP") arrangements.

In line with the internal changes, the Committee received and reviewed the remuneration principles for the Group. The Committee also reviewed and endorsed salary and bonuses to be awarded during 2019 under the agreed terms of reference and reward plans in accordance with parameters previously approved by the Committee.

## **HERMES FUND MANAGERS LIMITED**

### **REPORT OF THE REMUNERATION COMMITTEE (continued)**

#### **WORK OF THE COMMITTEE DURING 2019 (continued)**

The Committee believes that these plans, operated within the positive culture of strong performance and behaviour that exists in Hermes' business, supported by the Federated Hermes Pledge, provide alignment between management and both shareholders and clients, and are in accordance with the relevant legislative changes and best practice.

In setting these parameters and approving the awards, the Committee was aware of the market environment, peer group practice and the financial and investment performance of Hermes.

The members who make up the Remuneration Committee at Hermes do not have a vested interest in the amounts being paid to any employees and do not participate in any Company-based incentive schemes.

Director remuneration is reviewed by the Chairman and Hermes' Chief Executive and implemented, where appropriate, following approval of the CEO and Compensation Committee of the Board of Directors of Hermes' majority owner, Federated Hermes, Inc.

#### **Transparency**

The transparency of the disclosures included in this report is generally consistent with that of public companies in the UK. Disclosures include remuneration payable to executive directors and setting this in the context of Hermes' performance. This aligns the disclosures with Hermes' recommendations for public listed companies, and this is discussed in detail in the report.

#### **Stakeholder alignment**

The Committee believes that remuneration must be aligned with long-term performance and reflect strong risk management. The Committee believes that this will encourage a responsible culture regarding both investments and relationships with key stakeholders. It is important that the remuneration framework is clear, understandable and achievable in order to motivate and retain employees and ensure alignment with the strategic business targets agreed with the Shareholders. This is achieved by using a combination of fixed and variable compensation tools enabling management to encourage the right behaviours and strong performance over the short, medium and long term.

Management is charged with applying their discretion as they steer Hermes within a clear risk management framework. Management is supported in these responsibilities by the consistent application of Hermes' performance and behaviour metrics used as part of the annual appraisal discussion. These have been reinforced by the Federated Hermes Pledge which underpins the importance of putting the client first and acting responsibly and transparently. An overview of how Hermes' remuneration policies align the interests of employees with the company's objectives is set out on the following pages.

#### **Strategy**

Hermes' ongoing strategy is to build a world-class investment management business that delivers outstanding holistic return outcomes for clients and their beneficiaries, attracts strong inflows of third-party assets, and continues to meet and exceed its financial objectives. Hermes will continue to review the remuneration policy as Hermes changes. Individuals' remuneration will continue to be linked with the success and long-term growth of the Hermes Group.

## **HERMES FUND MANAGERS LIMITED**

### **REPORT OF THE REMUNERATION COMMITTEE (continued)**

#### **Reward strategy principles**

As a company with two principal shareholders, the principal-agent issues present in the UK public listed company sector are less prominent for Hermes. Indeed, representatives from the owners sit on Hermes' Board and the Remuneration Committee and are directly involved in developing and approving remuneration policy and outcomes.

Notwithstanding being a majority-owned subsidiary of a U.S. publicly listed company, Hermes is aligned to those principles we have communicated to listed companies. There is a key focus on strategic delivery (Hermes does not have a share price on a public exchange) and rewarding both "the how" as well as "the what" in terms of operational and financial performance, and through representation on Hermes' Board there are clear lines of accountability to the owners.

#### **Diversity and gender pay gap**

We are committed to employee diversity. This year we have continued working to increase the representation of women on a Hermes-wide basis at the senior management level. Having achieved our 2018 targets which we set in 2016, we are now aiming for new 2021 targets as outlined in the Strategic Report.

In 2019 we published our Gender Pay Report in accordance with the UK Government Equalities Office reporting regulation. Hermes has a strong culture of responsibility, ingrained in our DNA, and Hermes' management firmly believes that we should lead by example. We remain committed to treating everyone fairly, with dignity and respect, and believe that diversity and an inclusive culture allows us to continue to grow as a strong and innovative organisation.

As a signatory of the Women in Finance Charter, we have set Hermes-wide targets for the business and achieved an increase in female employees to 42% in 2019 (2018:40%, 2017: 39%). Despite being on par with the rest of the asset management industry, we need to change this imbalance across Hermes as well as the rest of the industry. As disclosed in the strategic report, Hermes has set targets for gender at Hermes Board, senior management and Hermes as a whole.

#### **Hermes remuneration philosophy and principles**

The Committee's philosophy is to reward individual contribution, as demonstrated by the delivery of long-term sustainable results that are aligned with the business strategy, values and behaviours of the Group and that serve the best interests of clients, their beneficiaries and our owners, while enabling the business to grow to its potential.

Through focusing on long-term awards, the incentive pay strategies encourage employees to act like long-term shareholders and support the performance of Hermes and its culture in order to create a sustainable business, while discouraging excessive risk taking. The risk appetite of the Group is closely monitored, and further discussed in the Risk Management section of the Strategic Report. Individual and organisational performance is transparently and rigorously assessed against a combination of financial (multi-year) and non-financial (multi-year) key performance indicators in order to determine the appropriate total remuneration that will attract and retain key talent.

The following page demonstrates how Hermes embodies these key principles.



# HERMES FUND MANAGERS LIMITED

## REPORT OF THE REMUNERATION COMMITTEE (continued)

### Reward strategy principles (continued)

Remuneration Principles promoted by Hermes	Specifics	How are they implemented at Hermes?
<b>Shareholding</b>  Executives should make a material long-term investment in the Company's shares	Long-term awards for senior management that encourage long-term success  Commitment to not pay more than is necessary	<p>Our LTIP awards restricted stock units ("RSU") up to 10.5% of the equity of Hermes to selected employees, generally senior management and is designed to encourage profitable growth over a five-year profile. The details are discussed further on in this report.</p> <p>The Hermes Chief Executive Officer (CEO) is eligible to participate in a UK Sub-Plan of the Federated stock incentive plan. Under the terms of the Sub-Plan, the CEO is eligible to be invited annually to purchase a set number of shares in the Group's parent company, Federated Hermes, Inc. at a discounted price. These shares vest 5 years after the date of purchase.</p> <p>The CEO is also eligible to participate in Federated Hermes Inc.'s Bonus Restricted Stock Program under which he is eligible to receive a portion of his annual bonus in restricted stock of Federated Hermes Inc. at 85% of its value. The bonus restricted stock vests over a three year period.</p>
<b>Alignment</b>  Pay should be aligned to the long-term success and the desired corporate culture	Strategic performance metrics (rather than total shareholder return) to dominate incentive schemes  Assessment of performance with use of relevant metrics focused towards impact on stakeholders  To promote a sound and aware approach to risk management that is aligned with the Company's risk appetite, client needs and corporate objectives  Tail risk built into pay structures	<p>A proportion of key employees' deferred remuneration is delivered as fund awards, which are notional investments in funds managed by the Group, thereby aligning the short and long-term interests of employees with our clients and stakeholders.</p> <p>Individuals are assessed on a combination of financial, technical and behavioural key performance indicators. Non-financial metrics include demonstration of Hermes' corporate behaviours as outlined in the Federated Hermes Pledge. Individuals will be highly rated if they perform successfully while embodying the Hermes behaviours as conveyed in the Hermes Pledge. Further detail is discussed later in the report.</p> <p>The Remuneration Committee works closely with the Risk and Compliance Committee to ensure that remuneration principles are governed by a sound and risk-aware management system.</p> <p>During the vesting period for deferred compensation, awards are subject to the malus clause in the plan rules. After vesting, awards remain subject to clawback.</p>
<b>Simplicity</b>  Pay schemes should be clear and understandable for both investors and executives	To deliver reward programs that are transparent, simple to administer and affordable to the Group	<p>Hermes has a single incentive scheme for Hermes' senior management. The discretionary bonus rewards past performance and includes a deferred portion for ongoing alignment, while the RSU's provide a forward-looking motivational tool to deliver a sustainable business. Additionally, the UK Sub-Plan of the Federated Hermes, Inc. stock incentive plan referred to above has been introduced for the CEO.</p>
<b>Accountability</b>  Remuneration committees should use discretion to ensure that awards properly reflect business performance	Ownership and accountability for pay outcomes, including greater use of discretion  Publication of pay ratio	<p>Our Remuneration Committee is consistently enhancing the disclosures we provide within the annual remuneration report.</p> <p>Total variable compensation is determined by the Remuneration Committee and recommended to the Board. The Remuneration Committee directly review and approve the remuneration payable to the top 50 highest paid employees. The Remuneration Committee has overall discretion to adjust 100% of discretionary awards and has adjusted awards both up and down over recent years.</p> <p>We have disclosed our relative spend on pay and the ratio of total CEO pay as compared to median employee pay. Our CEO and fellow Executive Committee members hold regular events in which they make themselves available to answer any questions from staff.</p>

## HERMES FUND MANAGERS LIMITED

### REPORT OF THE REMUNERATION COMMITTEE (continued)

<b>Stewardship</b> Companies and investors should regularly discuss strategy, long-term performance and the link to remuneration	Greater quality of engagement along the ownership chain	Our owners are represented on Hermes' Board and the Remuneration Committee, ensuring there is clear connection between Hermes, our owners and our owners' underlying beneficiaries and shareholders.
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### Outline of individual pay elements of the Group

Individual pay elements support our purpose and align interests with clients and stakeholders

#### Fixed pay elements – base salary, retirement and other benefits

Provides competitive fixed pay at a level that reflects market compensation for the role. This applies to all employees.

- Assists employees with retirement and provides insurance coverage and other corporate benefits.
- Determined by experience, duties and scope of responsibility, as well as internal and external market factors.
- Reviewed annually, the Hermes Remuneration Committee considers, challenges and approves the budget requested by the Hermes Executive Committee.
- Proposals are approved in accordance with the Remuneration Committee Terms of Reference.

#### Bonus

Encourages all employees to deliver high levels of performance and demonstrate behaviours that are in line with the corporate values, thus aligning the interest of shareholders, investors and stakeholders.

##### Structure:

- The discretionary bonus scheme is for all eligible employees. Eligibility is based on service conditions.
- Individual awards are based on an assessment of an individual's performance and behaviours with reference to Company performance, team performance and market intelligence.
- All bonus allocations are reviewed by the Executive Committee and the top 50 (and all current employees identified as Code Staff) reviewed by the Remuneration Committee.
- Based on the size of the bonus, an element is deferred and notionally co-invested. Both the upfront and deferred elements of the bonus are ultimately delivered in cash, with the deferred portion co-invested in investment strategies to ensure alignment of interests (see next section for more detail).
- Leaver provisions: Good and Bad leaver provisions apply to the awards.

##### Performance & Adjustment:

- The Hermes-wide bonus pool is based purely on Hermes performance.
- Performance measures such as revenue, profitability and profit margins are considered before the pool size is determined by Hermes' Remuneration Committee's approval. Furthermore, the Remuneration Committee and Hermes' Executive Committee are not obligated to fully distribute the bonus pool and should adjustments be required (risk or otherwise), they have the discretion to impose any relevant adjustments. 100% of the discretionary award is subject to downward adjustments.
- The Hermes' Risk and Compliance Committee advises Hermes' Remuneration Committee about any considerations the Remuneration Committee should consider.

## HERMES FUND MANAGERS LIMITED

### REPORT OF THE REMUNERATION COMMITTEE (continued)

#### **Co-investment / bonus deferral**

Aligns short and long-term interests of employees with our clients and stakeholders. Co-investment aligns the interests of investment professionals with those of the shareholders and investors.

##### *Structure:*

- The deferral scheme applies to all eligible employees whose bonus is £75,000 or greater.
- Awards vest over three years in equal tranches (except in special circumstances) and the performance period does not restart each year.
- Over the performance period, the underlying award notionally tracks fund(s) performance and is adjusted in line with the performance of the fund(s). For the sake of clarity, it can be adjusted upward or downward.
- For investment professionals at least 50% of their deferred award is notionally co-invested into the fund(s) they manage. The remaining 50% can also be notionally co-invested into the funds they manage, or the employee can choose to notionally co-invest in a basket of funds from across Hermes. There is no retention period.
- Non-investment professionals must notionally co-invest 100% of their deferred bonus award into a basket of funds.
- During the vesting period for deferred compensation, awards are subject to malus. After the vesting, awards remain subject to clawback.
- Upon vesting, the change in performance during the performance period is applied to the vesting tranche. This mechanism is applied when performance increases, as well as decreases.

#### **Long-term incentive plan ("LTIP")**

Aligns the interests of employees to those of the shareholders by encouraging employees to grow profits over the long term through sustained performance. The LTIP awards RSU's of up to 10.5% of the equity of Hermes to senior management and is designed to encourage profitable growth over a six-year period.

##### *Structure:*

- Participants are selected at the discretion of Hermes' Executive Committee and approved by Hermes' Remuneration Committee based on an employee's projected ability to influence Hermes over the performance period and can be in any part of Hermes.
- The RSU's are valued by an independent valuation firm.
- Good and Bad leaver provisions apply to the award.
- Participants are entitled to receive dividends prior to the end of the vesting period.

#### **UK Sub-Plan of the Federated Hermes, Inc. Stock Incentive Plan**

The Group's parent company Federated Hermes, Inc. operates a Sub-Plan to its existing Stock Incentive Plan. Awards from this plan are eligible to be made annually to the Hermes CEO.

##### *Structure:*

- The Sub-Plan allows awards of shares of restricted Federated Class B common stock to be granted to employees in the United Kingdom.
- In connection with any award, payment representing dividends may be made to participants.
- The Federated Hermes compensation committee has full authority to make awards under the Sub-Plan, to determine the terms and conditions of such awards, and to interpret and make all other determinations affecting the Sub-Plan, subject to the provisions of the Sub-Plan and the existing Federated Hermes Stock Incentive Plan, and direction by Federated Hermes, Inc.'s board of directors.
- Periodic awards under the Sub-Plan have a purchase price of \$3.00 per share.

##### *Performance & Adjustment:*

- LTIP awards have a five-year vesting schedule and are subject to certain vesting acceleration, forfeiture or malus and clawback provisions that may apply depending upon the circumstances surrounding a participant's termination of employment or the occurrence of certain other events.
- Bonus restricted stock is awarded at 85% of fair market value, based on the closing price of Federated Hermes, Inc. Class B common stock on the New York Stock Exchange on the award date and generally vests over a three-year period.

## HERMES FUND MANAGERS LIMITED

### REPORT OF THE REMUNERATION COMMITTEE (continued)

Below is a description of the approach to measuring the performance of individuals, including both financial and non-financial metrics, and explains how this assessment influences an individual's remuneration.

- The Company's performance management process requires all managers to review the performance and behaviours of their employees and to assign a rating to reflect their contribution throughout the year.
- All roles are benchmarked against the market to ensure that their remuneration is competitive without being excessive.
- A rigorous review is undertaken to ensure a strong correlation between performance and awards.
- Non-financial metrics include demonstration of corporate behaviours, and successfully delivering agreed objectives.

#### Remuneration ratios

The compensation to revenue ratio, bonus to revenue ratio and CEO to median employee ratio form part of the key remuneration measures at Hermes. These measures allow us to benchmark performance against industry peers and align compensation with the Company's financial performance. In January 2020, Hermes' Board, which includes representation from Hermes' shareholder's, approved a bonus of £41.7m inclusive of National Insurance for the 2019 performance year, equating to a bonus to revenue ratio of 26%.

The table below shows the comparable relative spend on pay, excluding the impact of the change of control one off event which was explained in detail in the 2018 financial statements.

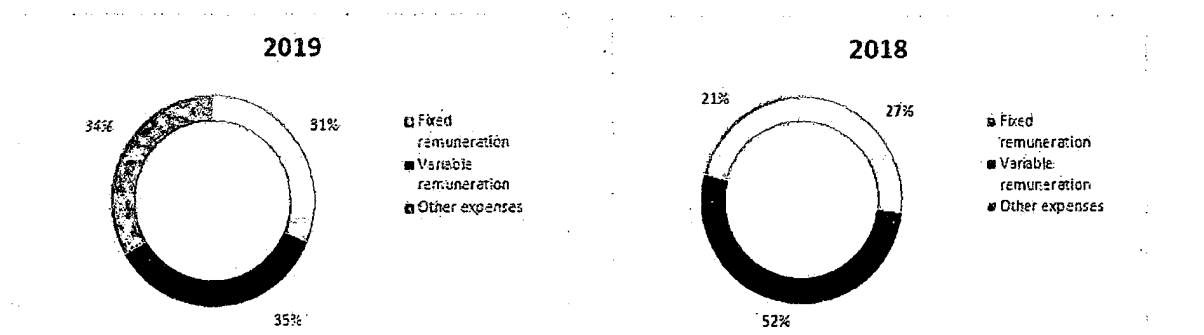
#### Relative Spend on Pay on an underlying basis (\*2018 excludes the impact of the Change of Control)

Ratio	2019	2018*
<b>Compensation ratio</b>	<b>51%</b>	<b>55%</b>
Total compensation for employees /underlying revenues		
<b>Bonus to revenue ratio</b>	<b>26%</b>	<b>27%</b>
Bonus/underlying revenues		
<b>CEO to median employee pay</b>	<b>23x</b>	<b>22x</b>
Total pay for CEO/Median annual compensation for UK employees (excl. executives)		

## HERMES FUND MANAGERS LIMITED

### REPORT OF THE REMUNERATION COMMITTEE (continued)

The charts below show the relative spend on remuneration (both fixed and variable) as a percentage of total costs of the business.



### Treatment of executive incentive schemes, deferred compensation awards and LTIPs

The main sources of variable remuneration are the discretionary annual cash bonus, the Co-investment Scheme and the LTIP. The proposed awards are presented to the Remuneration Committee by the Executive Committee, which reviews all the proposals prior to the submission to Hermes' Remuneration Committee. All the schemes are approved by the Hermes' Board and Remuneration Committee and are regularly reviewed.

Any bonus pool is set as part of the strategic plan agreed between Hermes' Board and the controlling shareholder. Hermes' Remuneration Committee and Executive Committee are charged with effectively distributing any awards across Hermes on a discretionary basis. Participation in any bonus pool is limited to eligible employees only.

With regard to employees engaged in control functions, we ensure that their remuneration does not compromise their ability to objectively review the business areas they control and monitor.

### Guaranteed variable remuneration

Hermes may agree to make an award of guaranteed variable remuneration in line with Hermes' policies. Replacement awards, such as the buyout of a new joiner's deferred compensation that they are forfeiting to join Hermes, are not the Hermes' standard compensation practice; however, on the occasions where a replacement award is considered, Hermes will take steps to determine an appropriate amount and at all times be committed to paying no more than is necessary. Retention awards are considered guaranteed variable remuneration as these awards are notionally linked to the underlying performance of certain Hermes funds.

### Remuneration Policy Coverage

This policy covers all permanent employees of Hermes, wherever based, and across all subsidiaries. We believe the current policy to be fully compliant with the requirements of BIPRU Investment Firms (Prudential sourcebook for Banks, Building Societies and Investment firms), Undertakings for collective investment in transferable securities ("UCITS") and Alternative Investment Fund Managers ("AIFMD").

## HERMES FUND MANAGERS LIMITED

### REPORT OF THE REMUNERATION COMMITTEE (continued)

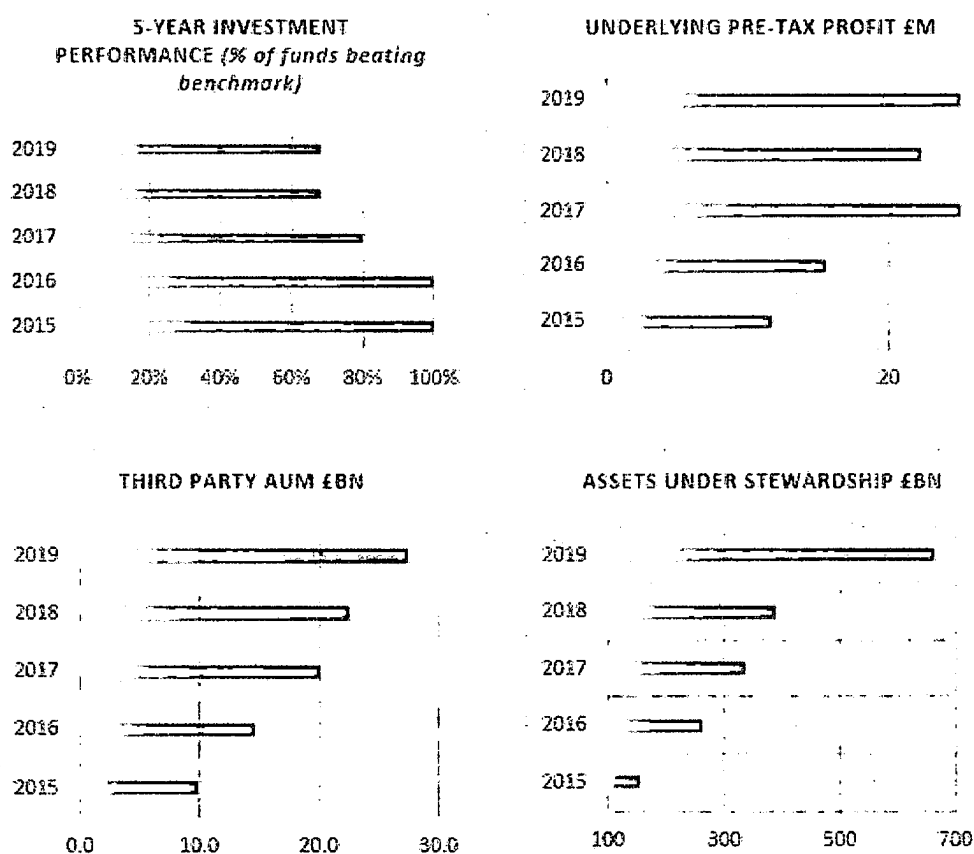
#### Performance and KPIs

##### 2019 Performance and Remuneration outcomes

The Committee considered Hermes' results relative to key performance indicators below and progress against its strategic objectives, as well as the personal performance of each Hermes Executive Committee member (further information on remuneration amounts can be found in Directors' note 8). This includes taking a balanced approach to growing the business profitably and in a sustainable way that encourages the longevity of client relationships, while retaining and developing the key talent critical to the long-term success of Hermes.

#### KPIs at a glance

The charts below provide an overview of the Group's performance over the last five years.



#### Executive Committee Remuneration vs. Key Performance Indicators

The Executive Committee for this purpose are comprised of the key management personnel, four of whom are not Directors of Hermes – the Chief Operating Officer, the Strategic Compliance Director, the Head of Private Markets and the Head of Investment. Key management personnel is a term used by FRS 102 for those persons having authority and responsibility for planning, directing and controlling the activities of a reporting entity, directly or indirectly, including any director (whether executive or otherwise).

## HERMES FUND MANAGERS LIMITED

### REPORT OF THE REMUNERATION COMMITTEE (continued)

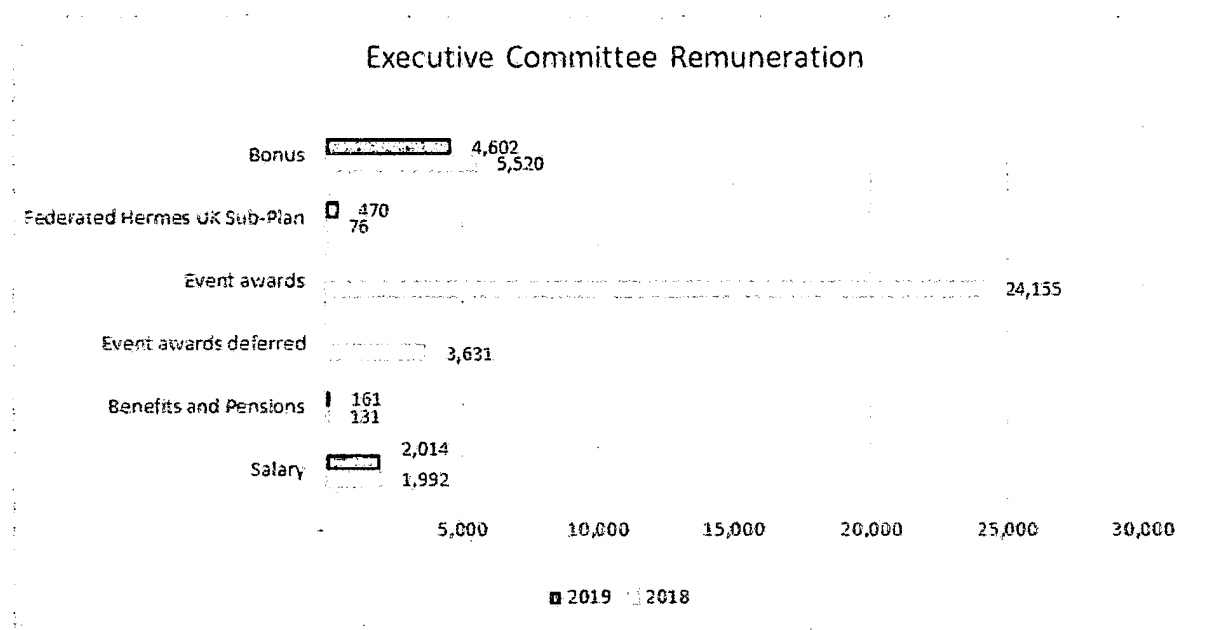
#### Executive Committee Remuneration vs. Key Performance Indicators (continued)

The total spend on remuneration is derived from a composite of the revenue and profit metrics discussed in more detail on the previous page. Further information on the total spend for key management personnel is detailed below.

	2019	2018
	£'000	£'000
Ongoing remuneration	6,777	7,643
Cash awards arising through the change of control	-	24,155
Federated Hermes, Inc. UK Sub-Plan	470	76
Deferred awards arising through the change of control	-	3,631
	<u>7,247</u>	<u>35,505</u>

Total ongoing key management personnel remuneration includes emoluments, Hermes' contributions to money purchase pension schemes and the Federated Hermes, Inc. UK Sub-Plan in the case of the CEO.

The chart below shows the composition of remuneration for 2019 and 2018.



## HERMES FUND MANAGERS LIMITED

### REPORT OF THE REMUNERATION COMMITTEE (continued)

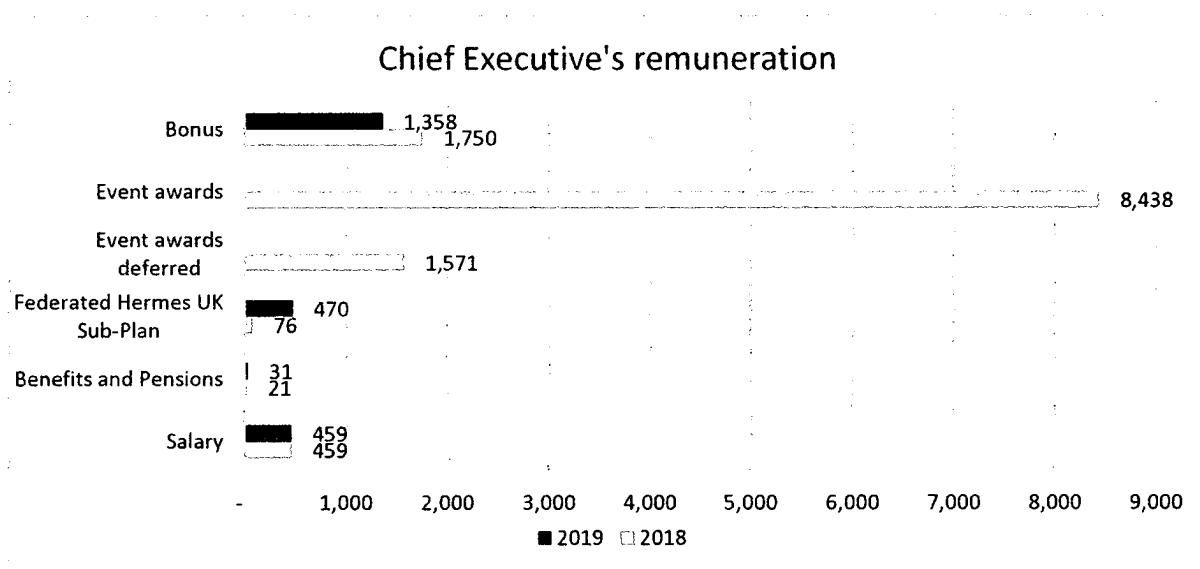
#### CEO remuneration

The CEO's performance is formally assessed twice each year by the Chairman of the Hermes Board, assessment is against the CEO's annual objectives and progress toward the achievement of the long-term objectives of the business.

The formal appraisal supports further discussion and deliberation by Hermes' Remuneration Committee regarding the CEO's annual cash bonus, deferred co-investment and long-term incentive pay award. This process is formally documented as part of the Committee's Terms of Reference. Hermes performance and behaviour framework applies to all staff regardless of seniority; however, specific additional competencies are assigned to those in leadership and management positions.

	2019	2018
	£'000	£'000
Ongoing remuneration	1,848	2,230
Cash awards arising through the change of control	-	8,438
Federated Hermes, Inc. UK Sub-Plan	470	76
Deferred awards arising through the change of control	-	1,571
	<u>2,318</u>	<u>12,315</u>

The total CEO's remuneration includes salary, bonus, Company contributions to money purchase pension schemes, the long-term incentive pay award, and the Federated Hermes, Inc. UK Sub-Plan.





# HERMES FUND MANAGERS LIMITED

## REPORT OF THE REMUNERATION COMMITTEE (continued)

### CEO remuneration (continued)

Key performance indicators	Key points in 2019 financial year – relevant to bonus award	Assessment
Strategic Delivery	Lead the execution of Hermes' corporate strategy and in particular support/drive Business Development, US EOS and MAC plans for growth	✓✓
Management Account Profit		
Third party growth	Deliver the Hermes' financial growth plan in line with Target Performance Indicators	✓✓
Cost control	Drive and where appropriate 'sponsor' cost management initiatives functionally and company-wide in support of Hermes' financial performance  Ensure new products are profitable	✓✓✓
Investment performance	Maintain investment performance of third-party and shareholders' assets and, adapting to market direction, maximise investment performance/ growth opportunities across the product range	✓✓✓
Cultural Leadership		
Ambassador for asset management industry through initiatives	Act as the champion of change within the organisation and actively sponsor the firms Responsible Accountabilities  Act as a key representative and ambassador for the firm and asset management industry, supporting and championing initiatives for positive change across a spectrum of groups and events  Advocate for market reform and holistic return through conferences, and membership of the 300 Club, UK National Advisory Board on Impact Investing, Banking Standard Board and the UN Environmental Programme Financial Initiative Steering Committee	✓✓✓
Hermes Pledge and performance and behaviour framework	Promote an inclusive and performance led culture that supports Hermes' vision statement  Build a collaborative relationship with the majority shareholder and BTPS that supports productive, solution orientated outcomes with beneficiaries at the heart of decisions  Stakeholder management of Hermes' Board, Executive Committee, owners, clients, key talent and employees	✓✓

Key	
Above target	✓✓✓
Around target	✓✓
Between threshold and target	✓
Below threshold	↓

The remuneration of the CEO is approved by the Chairman of the Hermes Board and the Chief Executive of Federated Hermes, Inc., the ultimate parent of Hermes.

## **HERMES FUND MANAGERS LIMITED**

### **REPORT OF THE REMUNERATION COMMITTEE (continued)**

#### **POTENTIAL REGULATORY CHANGE UPDATE**

On 21 December 2015, the European Banking Authority published its final guidelines on sound remuneration policies, which came into effect on 1 January 2017. Hermes continues to apply 'Proportionality' as a Level 3 firm under the Prudential Regulatory Authority's and Financial Conduct Authority's regulations on remuneration. In the future, due to upcoming Investments Firms Directive ("IFD") regulation or Hermes internal organisation we may be required to make changes to the remuneration policy to remain compliant with these rules.

The Committee believes that the approach of not capping variable remuneration at an individual level is in the best interests of shareholders and clients. It allows the Group to attract, retain and motivate the best talent, who know that good performance and behaviour in line with the values will be rewarded. It also allows the base salaries to remain relatively low, controlling the fixed cost base when times are challenging.

In December 2019, final texts on IFD that contains the majority of the remuneration requirements were published in the European Journal following adoption by the European Parliament. IFD was initially proposed on the premise that it was not appropriate to apply the same requirements to banks and investment management, given the different risks faced by each industry. Some of the specifics remain to be seen; however some structural remuneration requirements are likely to apply, and these are likely to include mandatory deferral, malus, clawback and holding periods.

Hermes' Board and Remuneration Committee continue to monitor any regulatory developments and will consult with the Shareholders if a new policy is required.

#### **Independency and Objectivity of the Remuneration Committee**

Hermes' Strategic Risk & Compliance Director and Head of Internal Audit have reporting lines into the Chairman of Hermes' Audit Committee in the case of Internal Audit, and into the Chairman of Hermes' Risk and Compliance Committee in the case of Risk and Compliance. The Hermes' Head of Human Resources, although reporting internally, interfaces directly with the Chair of Hermes' Remuneration Committee. The chair of each of the committees is a Non-Executive Director.

Remuneration for Hermes' Strategic Risk & Compliance Director, Head of Internal Audit, and Head of Human Resources is proposed by executive management but independently approved by Hermes' Remuneration Committee. It is based on a combination of individual performance and market comparison. Objectives for control functions are set and measured independent of the business areas they support. The independence ensures the discretionary award granted is reflective of the achievement of objectives, rather than business performance.

## **HERMES FUND MANAGERS LIMITED**

### **REPORT OF THE REMUNERATION COMMITTEE (continued)**

#### **Personal Shareholding Policy**

When applicable, Hermes staff undertake not to use personal hedging strategies or remuneration or liability-related contracts of insurance to undermine the risk-alignment effects embedded in their remuneration arrangements, and Hermes' Executive Committee maintains effective arrangements designed to ensure that staff comply with their undertaking.

#### **Avoiding Conflicts of Interest**

To ensure remuneration policies avoid conflicts of interests, Hermes developed a Conflicts of Interest Policy in accordance with the Markets in Financial Instruments Directive (MiFID), which outlines the steps Hermes has taken to identify and mitigate the types of conflict of interests that exist or may exist. Hermes is also subject to the Federated Hermes, Inc.'s Code of Business Conduct and Ethics and its Code of Ethics for Senior Financial Officers.

#### **Effective Risk Management**

To ensure that remuneration decisions consider the implications for risk and risk management of the firm, the heads of Legal, Risk, Compliance and Audit provide the Remuneration Committee with regular updates on any errors or breaches that may have occurred throughout the performance period. At the end of the period, the control functions are re-engaged to ensure that any errors or breaches have been considered for making remuneration decisions.

#### **Directors' Emoluments**

Directors' emoluments, all of which have been approved by the Hermes' Remuneration Committee, are disclosed in note 9 to the financial statements.

### **EVALUATING THE PERFORMANCE OF THE COMMITTEE**

An annual performance assessment of the Committee will be carried out during the first half of 2020, with the results to be considered by the Committee and Hermes' Board in July 2020.

## HERMES FUND MANAGERS LIMITED

### REPORT OF THE NOMINATIONS COMMITTEE

#### MEMBERSHIP

Hermes' Nominations Committee is chaired by David Stewart and its members are Gordy Ceresino, Sally James, Billy McClory and David Watson.

#### RESPONSIBILITIES

The Committee's primary responsibilities are to assist and advise Hermes' Board. The scope includes, but is not limited to:

- Evaluating the balance, skills, knowledge and experience of members;
- Regularly reviewing the structure, size and composition of Hermes' Board;
- Identifying and nominating candidates for appointment to Hermes' Board;
- Considering the leadership needs of the Group and considering succession planning for Hermes' Directors and other senior executives;
- Assessing the contribution of Hermes' Non-Executive Directors; and
- Approving the appointment of any Director to the Board of a subsidiary operating company of the Group.

#### Committee attendance in 2019

Member	Attendance
David Stewart (Chair)	6/6
Sally James	6/6
Billy McClory	6/6
David Watson	6/6
Gordy Ceresino	4/6

#### Work of the Committee in 2019

##### Major topics considered by the Committee during the year were:

- Appointment of an executive director to the Board of Hermes European Equities Limited;
- Appointment of an executive director to the Board of Hermes Private Debt GP Limited;
- Appointment of a Hermes Remuneration Committee member and Alternate to Hermes GPE LLP;
- Appointments of two executive directors to HFMIL;
- Appointment of seven directors to the Board of Hermes Stewardship North America, Inc;
- Appointment of a director to the Board of Hermes Global Investment Funds plc; and
- Appointment of a director to a number of Luxembourg entities\*.

\*Hermes Private Debt (Lux) II GP S.à.r.l. and Hermes Private Debt (Lux) I GP S.à.r.l.

#### EVALUATING THE PERFORMANCE OF THE COMMITTEE

An annual performance assessment of the Committee will be carried out during the first half of 2020, with the results to be considered by the Committee and Hermes' Board in July 2020.

## **HERMES FUND MANAGERS LIMITED**

### **DIRECTORS' REPORT**

Secretary: Susan Cane (resigned 10 May 2019, a new Secretary has not been appointed as at 31 December 2019)  
Registered Office: Sixth Floor, 150 Cheapside, London, England, EC2V 6ET  
Registered Number: 1661776

The Hermes' Directors present their report on the affairs of the Group, together with the financial statements and auditor's report, for the year ended 31 December 2019. The Directors who served during the year are listed on pages 49 to 52.

The Chairman's statement and Hermes' Audit, Risk and Compliance, Remuneration and Nominations Committee reports form part of this Directors' report.

### **RESULTS AND DIVIDEND**

The results for the year are shown in the Consolidated Profit and Loss Account. A detailed business review is included in the strategic report. The Directors consider that Hermes is well placed to take advantage of future opportunities. The overall performance of the Group is explained in the Financial Review section of the Strategic Report on page 22. Further, the Group's principal risks and uncertainties are disclosed in the Risk Management section and key performance indicators are provided in the Investment Performance section of the Strategic Report.

The Directors do not recommend a dividend payment in respect of 2019 (2018: £Nil).

### **GOING CONCERN**

Having made all reasonable enquiries and having regard to the nature of the Group and its activities, Hermes' Directors are satisfied at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

As part of their enquiries, Hermes' Directors have reviewed the adequacy of the Group's regulatory capital position under a number of severe but plausible scenarios as detailed in the viability statement on page 48. The Directors have also taken account of the potential impact on the Group of the uncertain market outlook resulting from the COVID-19 outbreak (as described in further detail in the 'Outlook' and 'Principal Risks and Mitigants' sections on pages 25 and 42 respectively of the Strategic Report) and continue to have a high degree of confidence that the Group will continue to be profitable and generate cash on a timely basis to enable it to manage its liabilities. Further details of this assessment are provided in note 1c of the financial statements

Accordingly, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2019.

### **FINANCIAL INSTRUMENTS**

The Group has financial instruments including debtors, creditors, investments and cash. These mostly arise from the Group's operations. The Group has a policy of identifying and controlling the financial risks associated with such instruments. These risks include credit risk, liquidity risk, interest rate risk and market risk. Bearing in mind the nature of the exposure to financial instruments within the Group and the limited risks associated with them, Hermes' Directors are satisfied that there is adequate control of the risks. Note 25 presents further information on the Group's financial risk management objectives and strategy.

## **HERMES FUND MANAGERS LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **DIRECTORS' INDEMNITIES**

Qualifying third-party indemnity provisions, which were made during the year for the benefit of Hermes' Directors, remain in force at the date of this report.

#### **EMPLOYEE CONSULTATION**

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and Hermes.

During the year meetings are held by executive management to discuss the performance of the Group with all employees. Opportunity is given at these meetings for senior executives to be questioned about matters which concern the employees.

#### **EQUAL OPPORTUNITIES POLICY**

Hermes is committed to equality and diversity. Applications for employment are always fully considered, regardless of gender, marital status, sexual orientation, age, disability, ethnic or national origin, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to provide reasonable accommodations so that their employment with the Group continues and that appropriate training is given, or any other reasonable arrangements are made. The Group aims to ensure that employees are treated on the basis of their merits, abilities and potential regardless of gender, marital status, disability, sexual orientation, ethnic or national origin.

#### **SUBSEQUENT EVENTS**

On 15 January 2020 Hermes completed the acquisition of MEPC Limited, a UK commercial real estate developer and asset manager for a consideration of £8.9m. The acquisition is expected to further enhance the Hermes' real estate proposition by adding specialist asset and development management expertise to the existing portfolio.

The Board has considered the impact of COVID-19 on the Company's operations, regulatory capital and liquidity as part of its process to approve the Company's financial result. The Board acknowledge that while the recent share price volatility will affect profitability in the short term the Company has a significant regulatory capital surplus and cash reserves. The well-being of its staff is the Board's primary concern, as such business continuity procedures were enacted requiring the temporary closure of the head office at 150 Cheapside and for staff to work from home. Refer to note 28 of the financial statements for further details of the Directors' assessment of these events.

#### **AUDITOR**

EY LLP will be deemed to be reappointed at the end of the next period for appointing independent auditors as defined in Section 485(2) of the Companies Act 2006.

**HERMES FUND MANAGERS LIMITED**

**DIRECTORS' REPORT (continued)**

**STATEMENT ON DISCLOSURE OF INFORMATION TO THE AUDITOR**

Hermes' Directors, having made enquiries to fellow Directors, can state that:

- so far as they are aware, there is no relevant audit information of which Hermes' independent auditor is unaware; and
- they have taken all reasonable steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that Hermes' independent auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

This report was approved by order of Hermes' Board and signed on behalf of Hermes' Board by:



**S A Nusseibeh**  
Chief Executive Officer

9 April 2020

## **HERMES FUND MANAGERS LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS**

Hermes' Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law Hermes' Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Under company law Hermes' Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, Hermes' Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations or have no realistic alternative but to do so.

Hermes' Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company, and to prevent and detect fraud and other irregularities.

Hermes' Directors are responsible for the maintenance and integrity of the corporate and financial information included on Hermes' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## **HERMES FUND MANAGERS LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERMES FUND MANAGERS LIMITED**

#### **Opinion**

We have audited the financial statements of Hermes Fund Managers Limited ('the Company') and its subsidiaries (together the "Group") for the year ended 31 December 2019 which comprise the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statements of changes in equity, the consolidated and company cash flow statements and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report below. We are independent of the Group and the Company in accordance with the ethical requirements in the UK that are relevant to our audit of the financial statements, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Emphasis of matter – Effects of COVID-19**

We draw attention to Note 1c and Note 28 of the financial statements, which describe the economic and social disruption that the Group is facing as a result of COVID-19; including both the Group's business continuity protocols and the potential impact on the value of assets managed by the Group on behalf of their clients. Our opinion is not modified in respect of this matter.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- Hermes' directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

## **HERMES FUND MANAGERS LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERMES FUND MANAGERS LIMITED (continued)**

#### **Conclusions relating to going concern (continued)**

- Hermes' directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### **Other information**

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Hermes' directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or

## **HERMES FUND MANAGERS LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERMES FUND MANAGERS LIMITED (continued)**

#### **Matters on which we are required to report by exception (continued)**

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of directors**

As explained more fully in the statement of directors' responsibilities in respect to the Annual Report and the financial statements set out on page 80, Hermes' directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as Hermes' directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Hermes' directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

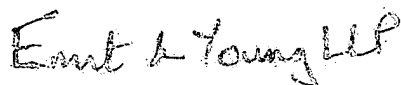
#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### **Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Matthew Price (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

9 April 2020

# HERMES FUND MANAGERS LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
	Notes	£'000	£'000
<b>Group revenue</b>	3	165,731	151,718
Fee and commission expenses	3	(7,534)	(8,935)
<b>Net group revenue</b>		<u>158,197</u>	<u>142,783</u>
Administrative expenses		(145,857)	(182,680)
<b>Group operating profit/(loss)</b>		<u>12,340</u>	<u>(39,897)</u>
Share of profit of the joint venture	4	1,706	2,397
Net loss on investments and foreign exchange	5	<u>(86)</u>	<u>(2,759)</u>
<b>Profit/(loss) on ordinary activities before interest and taxation</b>		13,960	(40,259)
Interest payable	6	-	(558)
Interest receivable	6	<u>864</u>	<u>781</u>
<b>Profit/(loss) on ordinary activities before taxation</b>	7	14,824	(40,036)
Tax credit	10	<u>2,317</u>	<u>1,668</u>
<b>Profit/(loss) on ordinary activities after taxation</b>		<u>17,141</u>	<u>(38,368)</u>

All of the results are derived from continuing operations.

The notes to these financial statements on pages 94 to 126 are an integral part of these financial statements.

**HERMES FUND MANAGERS LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Profit/(loss) for the financial year</b>	<b>17,141</b>	<b>(38,368)</b>
<b>Other comprehensive expense</b>		
Profit/(loss) arising from re-translation of foreign currency denominated subsidiaries	158	(984)
<b>Total comprehensive income/(expense)</b>	<b>17,299</b>	<b>(39,352)</b>
<b>Profit/(loss) for the year attributable to:</b>		
Equity shareholders of the Company	17,141	(38,368)
<b>Total comprehensive income/(expense) for the year attributable to:</b>		
Equity shareholders of the Company	17,299	(39,352)

The notes to these financial statements on pages 94 to 126 are an integral part of these financial statements.

# HERMES FUND MANAGERS LIMITED

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Tangible assets	12	7,001	8,145
Joint ventures	13	10,494	8,868
Investments	13	16,036	249
Debtors – amounts falling after one year	14	1,873	-
		<u>35,404</u>	<u>17,262</u>
<b>Current assets</b>			
Debtors	14	64,221	60,630
Financial assets – forward contracts	18	2,338	-
Cash at bank	23	89,894	81,149
		<u>156,453</u>	<u>141,779</u>
<b>Current liabilities</b>			
Financial liabilities – forward contracts	18	-	(3,005)
Creditors – amounts falling due within one year	15	(55,102)	(43,848)
<b>Net current assets</b>		<u>101,351</u>	<u>94,926</u>
<b>Total assets less current liabilities</b>		136,755	112,188
Creditors – amounts falling due after more than one year	15	(11,970)	(12,120)
Provisions for liabilities	16	(1,659)	(1,659)
<b>Net assets</b>		<u>123,126</u>	<u>98,409</u>
<b>Capital and reserves</b>			
Called up share capital	19	83,592	83,592
Share premium	19	-	71,866
Other reserves	20	11,315	3,897
Profit and loss account		28,219	(60,946)
<b>Shareholders' funds</b>		<u>123,126</u>	<u>98,409</u>

These financial statements were approved by the Hermes' Board and authorised for issue on 9 April 2020. The notes to these financial statements on pages 94 to 126 are an integral part of these financial statements.

Signed on behalf of the Hermes' Board of Directors



S A Nusseibeh – Director

Registered company number: 1661776

**HERMES FUND MANAGERS LIMITED**

**COMPANY BALANCE SHEET AS AT 31 DECEMBER 2019**

	Notes	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Tangible assets	12	7,001	8,145
Investments	13	54,727	38,042
Debtors – amounts falling after one year	14	1,873	-
		<u>63,601</u>	<u>46,187</u>
<b>Current assets</b>			
Debtors	14	54,128	32,903
Financial assets – forward contracts	18	2,338	-
Cash at bank	23	75,670	73,720
		<u>132,136</u>	<u>106,623</u>
<b>Current liabilities</b>			
Financial liabilities – forward contracts	18	-	(3,005)
Creditors – amounts falling due within one year	15	(78,060)	(103,802)
		<u>54,076</u>	<u>(184)</u>
<b>Net current assets/(liabilities)</b>			
		<u>117,677</u>	<u>46,003</u>
<b>Total assets less current liabilities</b>			
Creditors – amounts falling due after more than one year	15	(5,499)	(9,862)
Provisions	16	(1,659)	(1,659)
		<u>110,519</u>	<u>34,482</u>
<b>Net assets</b>			
		<u>110,519</u>	<u>34,482</u>
<b>Capital and reserves</b>			
Called up share capital	19	83,592	83,592
Share premium	19	-	71,866
Other reserves		7,418	3,897
Profit and loss account		19,509	(124,873)
		<u>110,519</u>	<u>34,482</u>
<b>Shareholders' funds</b>			
		<u>110,519</u>	<u>34,482</u>

The Company's profit after tax for the year amounted to £72,515,795 (2018: a loss of £93,185,842).

These financial statements were approved by the Hermes' Board and authorised for issue on 9 April 2020. The notes to these financial statements on pages 94 to 126 are an integral part of these financial statements.

Signed on behalf of Hermes' Board of Directors by:



S A Nusseibeh - Director

Registered company number: 1661776

**HERMES FUND MANAGERS LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	Called up share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2019		83,592	71,866	3,897	(60,946)	98,409
Profit for the year		-	-	-	17,141	17,141
Profit arising from re-translation of foreign currency denominated subsidiaries		-	-	-	158	158
<b>Total comprehensive profit</b>		-	-	-	<b>17,299</b>	<b>17,299</b>
Cancellation of share premium	19	-	(71,866)	-	71,866	-
Costs attributable to awards made under the Group's long-term incentive plan	20	-	-	7,418	-	7,418
<b>At 31 December 2019</b>		<b>83,592</b>	<b>-</b>	<b>11,315</b>	<b>28,219</b>	<b>123,126</b>

The notes to these financial statements on pages 94 to 126 are an integral part of these financial statements.



**HERMES FUND MANAGERS LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

		Called up			Profit and loss account	Total
	Notes	share capital £'000	Share premium £'000	Other reserves £'000	£'000	£'000
At 1 January 2018		72,458	-	-	(21,594)	50,864
Loss for the year		-	-	-	(38,368)	(38,368)
Loss arising from the re-translation of foreign currency denominated subsidiaries		-	-	-	(984)	(984)
<b>Total comprehensive loss</b>		-	-	-	<b>(39,352)</b>	<b>(39,352)</b>
Issue of shares	19	11,134	71,866	-	-	83,000
Costs attributable to the awards made under the Group's long-term incentive plan	20	-	-	3,897	-	3,897
<b>At 31 December 2018</b>		<b>83,592</b>	<b>71,866</b>	<b>3,897</b>	<b>(60,946)</b>	<b>98,409</b>

The notes to these financial statements on pages 94 to 126 are an integral part of these financial statements.

**HERMES FUND MANAGERS LIMITED**

**COMPANY STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	Called up share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2019		83,592	71,866	3,897	(124,873)	34,482
Profit for the year		-	-	-	72,516	72,516
Cancellation of share premium	19	-	(71,866)	-	71,866	-
Costs attributable to awards made under the Group's long-term incentive plan		-	-	3,521	-	3,521
<b>At 31 December 2019</b>		<u>83,592</u>	<u>-</u>	<u>7,418</u>	<u>19,509</u>	<u>110,519</u>

The notes to these financial statements on pages 94 to 126 are an integral part of these financial statements.

**HERMES FUND MANAGERS LIMITED**

**COMPANY STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	Called up share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2018		72,458	-	-	(31,688)	40,770
Loss for the year		-	-	-	(93,185)	(93,185)
Issue of shares	19	11,134	71,866	-	-	83,000
Costs attributable to awards made under the Group's long-term incentive plan		-	-	3,897	-	3,897
<b>At 31 December 2018</b>		<b>83,592</b>	<b>71,866</b>	<b>3,897</b>	<b>(124,873)</b>	<b>34,482</b>

The notes to these financial statements on pages 94 to 126 are an integral part of these financial statements.

**HERMES FUND MANAGERS LIMITED**

**CONSOLIDATED CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

	<b>Notes</b>	<b>2019 £'000</b>	<b>2018 £'000</b>
<b>Net cash from/(used in) operating activities</b>	<b>22</b>	<b>30,341</b>	<b>(67,788)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of fixed asset investments		25	12,315
Purchase of fixed asset investments		(15,206)	(40)
Investment in joint venture		(887)	(371)
Interest received on cash and cash equivalents		864	781
Dividends received from joint venture		-	3,475
Purchase of tangible fixed assets		(541)	(4,791)
<b>Net cash flows (used in)/from investing activities</b>		<b>(15,745)</b>	<b>11,369</b>
<b>Cash flows from financing activities</b>			
Proceeds on issue of share capital		-	83,000
Repayment of long-term borrowings		-	(20,000)
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>63,000</b>
<b>Net increase in cash and cash equivalents</b>	<b>23</b>	<b>14,596</b>	<b>6,581</b>
Cash and cash equivalents at beginning of year	23	81,149	78,347
Effect of foreign exchange rate changes		(5,851)	(3,779)
<b>Cash and cash equivalents at end of year</b>	<b>23</b>	<b>89,894</b>	<b>81,149</b>

The notes to these financial statements on pages 94 to 126 are an integral part of these financial statements.

**HERMES FUND MANAGERS LIMITED**

**COMPANY CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

	<b>Notes</b>	<b>2019 £'000</b>	<b>2018 £'000</b>
<b>Net cash used in operating activities</b>	<b>22</b>	<b>(57,044)</b>	<b>(66,756)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of fixed asset investments	25	12,315	
Purchase of fixed asset investments	(15,206)	(40)	
Investment in joint venture	(887)	(371)	
Investment in subsidiaries	(11)	(5,445)	
Proceeds from liquidation of subsidiary	-	2,961	
Interest received	828	781	
Dividends received from joint ventures	-	3,475	
Dividends received from subsidiaries	80,124	-	
Purchase of tangible fixed assets	(541)	(4,791)	
<b>Net cash flows from investing activities</b>		<b>64,332</b>	<b>8,885</b>
<b>Cash flows from financing activities</b>			
Proceeds on issue of share capital	-	83,000	
Proceeds from issue of long-term borrowings	-	-	
Repayment of long-term borrowings	-	(20,000)	
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>63,000</b>
<b>Net increase in cash and cash equivalents</b>	<b>23</b>	<b>7,288</b>	<b>5,129</b>
Cash and cash equivalents at beginning of year	23	73,720	71,948
Effect of foreign exchange rate changes		(5,338)	(3,357)
<b>Cash and cash equivalents at end of year</b>	<b>23</b>	<b>75,670</b>	<b>73,720</b>

The notes to these financial statements on pages 94 to 126 are an integral part of these financial statements.

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019

#### 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom law and Accounting Standards. The principal accounting policies are summarised below. They have all been applied consistently throughout both the current year and the preceding year.

##### a) General information and basis of accounting

The financial statements are prepared on the going concern basis as described in the Directors' Report.

Hermes Fund Managers Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office of the company is given on page 77. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 8 to 48.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of both the Group and the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated and Company financial statements are presented in pounds sterling.

##### b) Basis of consolidation

The Group's financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. Business combinations are accounted for under the purchase method. The results of subsidiaries acquired or sold are consolidated for the period from, or to, the date on which control passed to or from the Group.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

The Group has taken exemption from preparing a Company-only profit and loss account in line with the Companies Act 2006.

Hermes Assured Limited and Hermes Investments (North America) Limited, two wholly owned subsidiaries, are exempt from the requirements of the Companies Act relating to the audit of individual accounts for the year ended 31 December 2019 by virtue of Section 479A of the Companies Act 2006.

In the case of the consolidated financial statements, foreign operations are retranslated using the net investment method. The results of these foreign operations that have a functional currency which is different to the Group are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income and accumulated in equity.

**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**1. ACCOUNTING POLICIES (continued)**

**c) Going concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report. The Strategic Report further describes the financial and liquidity position of the Group; the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

As at 31 December 2019, the Group held cash of £89.9m and net current assets of £101.4m; having generated a profit for the year of £17.1m and a cash inflow from operating activities of £30.3m from assets under management ("AuM") of £37.1bn. In addition, the Group had surplus regulatory capital of £66.7m. The Directors consider that the Group's AuM provide a strong base from which to generate future revenues and the Group's existing financial resources provide a level of protection from which to withstand significant market stress.

However, as a result of the market turmoil created by the COVID-19 pandemic, the Directors have reviewed the adequacy of the Group's regulatory capital and solvency position under a number of severe yet plausible scenarios that take account of the potential impact on the Group of the uncertain market outlook resulting from the outbreak (including a reduction in revenue of 40% on an annualised basis). In addition, the Directors have conducted a reverse stress testing analysis to determine the levels to which the Group's assets under management would need to fall in order for the Group's surplus regulatory capital and cash liquidity to be exhausted.

Following this review, whilst certain of the more severe stressed scenarios considered by the Directors may impact the Group's profitability in the short term, the Group's existing significant regulatory capital surplus and cash positions provide the Directors with a high degree of confidence that the Group will be able to continue to meet its liabilities for the foreseeable future.

Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements

**d) Revenue**

Revenue is recognised on an accruals basis. Revenue from the supply of services represents the value of services provided under contracts and is recorded at the fair value of the consideration received or receivable net of VAT and rebates. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year. To the extent that fees are recognised in advance of billing they are included as accrued income. Where rebates remain payable at year end these amounts are recorded as part of creditors due within one year.

Revenue includes performance fees that are calculated based upon rolling performance periods of up to three years. Performance fees are recognised in the year the performance period ends and the fee has crystallised.

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 1. ACCOUNTING POLICIES (continued)

##### d) Revenue (continued)

Commissions and related fees are payable to third parties for ongoing services under distribution agreements and are charged to the profit and loss account on an accrual basis over the period in which the services are expected to be provided. To the extent that fees and commissions are recognised in advance of billing from third parties, they are included as accrued expense.

##### e) Carried Interest

Carried interest is accrued on profits generated by certain funds managed by Hermes GPE LLP on behalf of third parties. The recognition of carried interest takes relevant performance hurdles into consideration, assuming all investments were realised at the prevailing book value. Carried interest is only paid or received when the relevant performance hurdles are met on a cash basis and the accrual is discounted to reflect expected payment periods.

Carried interest receivable may be subject to clawback provisions if the performance of the fund deteriorates in the period following carried interest being paid. The Group will only accrue carried interest where the risk of reversal is highly unlikely. The Group will not recognise carried interest until towards the end of the relevant vehicle's life cycle and any carried interest received will be recognised on the balance sheet as deferred income until such time that the risk of clawback is remote.

##### f) Other income

Other income is recognised on an accruals basis. Other income primarily comprises legacy income from non-core past operations; class actions and licence fees. Other income also includes income generated from sub-leasing the Group's excess office space in certain global locations.

##### g) Goodwill

Goodwill represents any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired in a business combination. Goodwill arising in respect of acquisitions is capitalised in the year in which it arises and amortised over its useful life with a full year's charge for amortisation in the year of acquisition. All amortisation costs are recognised in the profit and loss account.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units ("CGU") of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro-rata basis. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

##### h) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.



## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 1. ACCOUNTING POLICIES (continued)

##### h) Financial instruments (continued)

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

All financial assets and liabilities are initially measured at fair value adjusted for transaction costs, except for those financial assets classified as at fair value through profit or loss, for which transaction costs are immediately charged to profit or loss.

Debt instruments that are classified as payable or receivable within one year on initial recognition are measured at the undiscounted amount of the cash or other consideration expected to be paid or received and, in the case of receivables, net of impairment.

Derivatives are classified as financial assets at fair value through profit or loss and are re-measured to their fair value at each reporting date.

The resulting gain or loss is recognised in profit or loss immediately.

Debtor and creditor balances are classified as basic financial instruments and initially recognised at the transaction price and subsequently measured at amortised cost less provision for impairment.

Financial assets and liabilities are only offset in the statement of financial position when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the financial asset expire or are settled, (b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or (c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expired.

##### i) Investments

Investments in subsidiaries and joint ventures are measured at cost less impairment. The impairment policy is shown below in (k). The Group does not have regulatory permissions to trade on its own account however the Group can hold investments in its own funds for the purpose of seed and hedging of deferred bonuses. These investments are classified as being held at fair value through profit or loss. Both unrealised gains or losses arising on the revaluation of these investments, and realised gains and losses on the disposal of these investments are recognised in the profit or loss account.

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 1. ACCOUNTING POLICIES (continued)

##### i) Investments (continued)

###### Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market (Level 1). When quoted prices are unavailable, other market observable inputs provide evidence of fair value (Level 2). If the market is not active, unobservable inputs may be used where the fair value is estimated by using a valuation technique (Level 3).

##### j) Joint Ventures

In the Group financial statements investments in joint ventures are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of joint venture profits, less losses, while the Group's investment in joint ventures is shown separately in the consolidated balance sheet and represents the Group's share of the net assets of the joint venture. Goodwill arising on the acquisition of joint ventures is accounted for in accordance with the policy for goodwill above (g). Any unamortised balance of goodwill is included in the carrying value of the investment in joint ventures.

##### k) Impairment

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

###### Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Where indicators exist for a decrease in impairment loss, the prior impairment loss is assessed for indications of reversal. For all assets other than goodwill, if and only if the reasons for the impairment loss have ceased to apply, an impairment loss shall be reversed in a subsequent period. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The reversal of an impairment is recognised in the profit and loss.

###### Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date. Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is assessed to determine whether a reversal can be objectively related to an event occurring after the impairment was recognised.

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 1. ACCOUNTING POLICIES (continued)

##### k) Impairment (continued)

An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

##### l) Foreign exchange

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are presented within the profit and loss account.

In the case of the consolidated financial statements, foreign operations are retranslated using the net investment method. The results of these foreign operations that have a functional currency that is different to the Group are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income and accumulated in equity.

##### m) Tangible fixed assets

Tangible fixed assets are stated at cost, less accumulated depreciation and any provision for impairment. Depreciation is provided on cost in equal annual instalments over the estimated useful economic lives of the assets and is recognised in the profit and loss account. The estimated useful economic lives are as follows:

Fixtures, fittings and equipment	- One to five years
Leasehold improvements	- Period of the lease

All tangible assets are depreciated from the point of acquisition to the point of disposal.

##### n) Administrative expenses

Administrative expenses include the Group's significant overhead costs such as staff costs, administration fees, market data services, marketing and IT costs. Expenses are recognised on an accruals basis.

##### o) Operating leases

Rental expenses in respect of operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 1. ACCOUNTING POLICIES (continued)

##### o) Operating leases (continued)

Rental income of the Group in respect of sub-leases that are classified as operating leases is recognised in the profit and loss account on a straight-line basis over the period of the lease.

##### p) Pension benefits

The Company operates a defined contribution scheme. The amount charged to the profit and loss account in respect of pension costs is the contribution payable in the year and is recognised on an accruals basis. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

##### q) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future. Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

##### r) Bonus costs

Bonus costs are recognised on an accruals basis. Deferred bonuses subject to co-investment arrangements are accrued on a straight-line basis over the period to vesting.

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 1. ACCOUNTING POLICIES (continued)

##### s) Share based payments

The long-term incentive plan ("LTIP") awards restricted stock units of up to 10.5% of the shares of the Company to senior management and is designed to encourage profitable growth. The LTIP is an equity settled share-based payment scheme. The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

The fair value of the awarded restricted stock units was determined by an external valuation of the Company's shares. In valuing equity-settled transactions, no account is taken of any vesting conditions other than conditions linked to the price of the shares of the Company (market conditions) and non-vesting conditions.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and Hermes' management's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. No expense is recognised for awards that are not expected to vest.

##### t) Provisions

Provisions are recognised when the Group has a contingent or present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligation is a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate of obligations can be reliably measured.

##### u) Dividends

Dividends are recognised when they have been declared and approved by the Board of HFML. Intra-Group dividends from the underlying subsidiary entities to the parent are recognised in the accounting period in which the dividends are declared and approved.

##### v) Interest income

The Group earns income as a result of holding its excess cash on deposit. Interest on cash and cash equivalents is recognised on an accruals basis using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019**  
**(continued)**

**2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The reported results of the Group are sensitive to the accounting policies, judgements and estimates that underlie the preparation of its financial statements. UK company law requires the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. The actual outcome may be materially different from that anticipated. In particular, in selecting the Group's accounting policies, the Hermes' Directors have determined that the Group's Long-Term Incentive Plan meets the definition of an Equity Settled Scheme (as defined by Section 26 of FRS 102) as opposed to a cash settled scheme and that the Group's lease arrangements meet the definition of an operating lease rather than finance lease. Please refer to accounting policies 1s and 1o, respectively, for details of the accounting policies adopted as a result of these judgements. The Directors have not identified any other key areas of judgement in selecting the Group's accounting policies.

The key sources of estimation uncertainty at the year-end that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

**(i) Deferred tax asset**

The ability of the Group to recognise a deferred tax asset in relation to taxable losses brought forward from prior year is limited to the extent that it is probable that the Group will generate sufficient taxable profits in the future against which these losses can be offset. The Hermes' Directors have prepared a profit forecast that provides their best estimate of the extent of profits that will be generated by the Group in the foreseeable future. The forecast adopts management's best estimate of the revenue and cost drivers that will impact the Group's future profitability. This estimation drives the size of the deferred tax asset recognised by the Group in respect of carried forward losses.

**(ii) Dilapidation provision**

The Hermes' Directors review the dilapidation provision annually. A third-party specialist is engaged to ensure that the provision recognised is sufficient to restore the premises to its original condition on termination of the lease. As disclosed in note 16, the Directors have recognised a dilapidation provision that represents their best estimate of the costs that will be required to restore the Group's office premises to their original condition upon termination of the lease.

## **HERMES FUND MANAGERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)**

#### **2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

##### **(iii) Revenue recognition of performance fee revenue and carried interest**

Firstly, certain performance fees recognised in the year remain subject to fluctuation dependent on the finalisation of net asset value and benchmark data for the underlying funds. The Hermes' Directors have calculated the performance fee entitlement based on their best estimate of this data and then applied a 5% discount to reflect uncertainty. This discount represents their best estimate of the maximum potential reduction in the fee entitlement that could arise from movements in the underlying source data.

Secondly, a carried interest entitlement that has crystallised during the year contains certain warranty provisions (expiring in September 2020) that may result in a clawback of the crystallised performance fee in the event that the warranty provisions are breached. The Hermes' Directors have recognised a discount of 20% to the crystallised carried interest entitlement to take account of these provisions. The discount represents their best estimate of the potential reduction in the carried interest entitlement in the event that certain warranty provisions are not met.

# HERMES FUND MANAGERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

### 3. REVENUE

Revenue comprises the value of services provided in the United Kingdom by the Group exclusive of VAT and is analysed by activity as follows:

	Group	
	2019 £'000	2018 £'000
Net management fees	140,432	134,291
Stewardship fees	8,827	7,695
Performance fees	5,501	6,445
Carried interest	8,900	1,970
Other fee income	2,071	1,317
Total Group revenue	<u>165,731</u>	<u>151,718</u>

Fees and commission expenses are paid to third parties for ongoing services under distribution agreements and are charged to the income statement over the period in which the services are expected to be provided. In 2019, the amount of fees and commissions recognised in the income statement were £7,534,183 (2018: £8,935,226)

### 4. SHARE OF PROFIT OF THE JOINT VENTURE

Share of results of the joint venture:

	2019 £'000	2018 £'000
<b>Joint venture:</b>		
Hermes GPE LLP	1,706	2,397
	<u>1,706</u>	<u>2,397</u>

Note 13 discloses additional information on the joint venture

### 5. NET LOSS ON INVESTMENTS AND FOREIGN EXCHANGE

	2019 £'000	2018 £'000
Net realised loss on closed forward contracts	(3,777)	(3,234)
Net unrealised gain/(loss) on open forward contracts	5,343	(3,088)
Unrealised gains on fixed asset investment	606	-
Profit/(loss) on sale of fixed asset investment	4	(16)
Net (loss)/gain on foreign exchange	<u>(2,262)</u>	<u>3,579</u>
	<u>(86)</u>	<u>(2,759)</u>



**HERMES FUND MANAGERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019**  
(continued)

**5. NET LOSS ON INVESTMENTS AND FOREIGN EXCHANGE (continued)**

Amounts recognised as realised losses on closed forward contracts in 2019 includes £3,005,000 of losses recognised as unrealised losses in the prior year.

**6. FINANCE INCOME/(COSTS) (NET)**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Interest payable in respect of:</b>		
Loan from previous ultimate parent	-	558
	-	558

Interest paid in 2018 related to a loan from BTPS. The loan was repaid on the 2 July 2018.

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Interest receivable in respect of:</b>		
Interest in relation to cash and cash equivalents	864	781
	864	781

**7. PROFIT/(LOSS) ON OPERATING ACTIVITIES**

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Profit/(loss) on operating activities stated after charging/(crediting):</b>		
Depreciation on tangible fixed assets (note 12)	1,510	1,408
Amortisation of goodwill (note 13)	967	1,335
Loss on disposal of tangible fixed assets	175	-
Rental charges under operating leases	3,175	3,204
<b>Auditor's remuneration:</b>		
Audit fees - Subsidiaries	122	103
- Company	84	77
	206	180
<b>Non-audit fees:</b>		
Other assurance services	89	86
<b>Total fees payable to the Group's auditor</b>	<b>295</b>	<b>266</b>

# HERMES FUND MANAGERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

### 8. STAFF NUMBERS AND COSTS

Average number of persons employed by the Group in the year:	2019	2018
Investment management	104	103
Stewardship	34	26
Business development	76	68
Administration	187	175
	<u>401</u>	<u>372</u>

At the year ended 31 December 2019 the Group employed 415 individuals.

Staff costs during the year in respect of these directors and employees were:	2019 £'000	2018 £'000
Wages and salaries	81,369	118,121
Social security costs	10,461	14,151
Pension costs	4,492	4,134
Redundancy payments	768	353
	<u>97,090</u>	<u>136,759</u>

### 9. DIRECTORS' REMUNERATION AND TRANSACTIONS

Directors' remuneration (including Non-Executive Directors)	2019 £'000	2018 £'000
Emoluments	3,713	4,500
Amounts receivable under long-term incentive schemes	470	17,705
Company contributions to money purchase pension schemes	38	46
	<u>4,221</u>	<u>22,251</u>

The Group operates a bonus deferral scheme whereby a portion of bonuses awarded in respect of the year are deferred. The full value of deferred awards granted to Hermes' Executive Directors in respect of the year was £1,422,000 (2018: £2,743,000), although they will only become payable after the Hermes' Directors satisfy future service conditions. The annual cost attributable to these deferred awards is included in total remuneration disclosed above.

The seven directors appointed by Federated Hermes, Inc. in 2018 are not remunerated by the Group but by Federated Hermes, Inc.

**HERMES FUND MANAGERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019**  
(continued)

**9. DIRECTORS' REMUNERATION AND TRANSACTIONS (continued)**

The number of Hermes' Directors who:	2019 No	2018 No
Are members of a money purchase pension scheme	2	3
Have awards receivable in the form of units under a long-term incentive scheme	2	3
 Remuneration of the highest paid Hermes' director:	 2019 £'000	 2018 £'000
Emoluments	1,829	2,211
Company contributions to money purchase pension schemes	19	19
Amounts receivable (other than shares and share options) under long-term incentive schemes	470	10,085
	<u>2,318</u>	<u>12,315</u>

Of the emolument balance above £862,000 (2018: £2,139,000) is deferred over a period of up to three years.

Details of transactions with Hermes' Directors and key management personnel during the year are disclosed in note 26.

**10. TAX ON PROFIT ON ORDINARY ACTIVITIES**

a) Analysis of tax charge/(credit) for the year	2019 £'000	2018 £'000
<b>Amounts recognised in profit or loss</b>		
<i>Current tax:</i>		
UK corporation tax at 19% (2018: 19%)	1,844	-
Overseas tax	105	-
Adjustment in respect of prior periods	(12)	(222)
<b>Total current tax charge/(credit)</b>	<u>1,937</u>	<u>(222)</u>
<i>Deferred tax:</i>		
Timing differences, origination and reversal	(3,754)	(1,198)
Adjustment in respect of prior periods	(500)	(248)
<b>Total deferred tax credit</b>	<u>(4,254)</u>	<u>(1,446)</u>
<b>Tax credit on profit on ordinary activities</b>	<u>(2,317)</u>	<u>(1,668)</u>

# HERMES FUND MANAGERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

### 10. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

#### b) Reconciliation of tax charge

The tax credit for the year differs from that resulting from applying the average rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £'000	2018 £'000
Profit/(loss) on ordinary activities multiplied by the average rate of corporation tax in the UK of 19% (2018: 19%)	2,816	(7,607)
<i>Effects of:</i>		
Non-taxable income	(265)	(634)
Non-deductible expenses	590	1,424
Adjustments in respect of prior periods	(455)	(314)
Effect of differences to tax rates	338	(367)
Deferred tax recognised	(5,281)	-
Deferred tax not recognised	-	5,718
Transfer pricing adjustment	-	110
Other	(5)	2
Chargeable gains	(55)	-
<b>Current tax credit for the year</b>	<b>(2,317)</b>	<b>(1,668)</b>

The UK corporation tax rate is 19%. The Group had an effective tax rate of minus 15.6% (2018: minus 4.2%) mainly due to the recognition of additional deferred tax assets in respect of brought forward corporate tax losses.

**HERMES FUND MANAGERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019**

(continued)

**10. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)**

**c) Deferred tax position**

	<b>2019 Provided £'000</b>	<b>2019 Unprovided £'000</b>	<b>2018 Provided £'000</b>	<b>2018 Unprovided £'000</b>
<b>The Group</b>				
Deferred tax (asset)/liability:				
Fixed asset timing difference	(1,715)		(2,103)	-
Tax losses	(10,467)	(4,846)	(7,587)	(10,090)
Capital gains	108		-	-
Share based timing differences	(2,179)		(753)	-
Short-term timing differences	(4,526)		(4,081)	-
	<u>(18,779)</u>	<u>(4,846)</u>	<u>(14,524)</u>	<u>(10,090)</u>

**The Company**

Deferred tax (asset)/liability:				
Fixed asset timing differences	(1,705)		(2,092)	-
Tax losses	(7,460)	(4,654)	(4,173)	(9,632)
Capital gains	108		-	-
Share based timing differences	(2,179)		(753)	-
Short-term timing differences	(3,037)		(3,709)	(400)
	<u>(14,273)</u>	<u>(4,654)</u>	<u>(10,727)</u>	<u>(10,032)</u>

On 11 March 2020, the Chancellor announced that the UK corporation tax rate will not be reduced from 19% to 17%, the substantively enacted rate at the balance sheet date, and will remain at 19%. If this change had been substantively enacted as at 31 December 2019, the Deferred Tax Asset of £18.7m would increase by £2.1m to £20.8m.

Deferred tax assets totalling £4,845,755 (2018: £10,090,351) have not been recognised in respect of certain trading losses as it is not probable that the Group will be able to recover those assets within the foreseeable future.

The Group forecasts that the amount of deferred tax that will unwind in the next twelve months is £1.1m.

# HERMES FUND MANAGERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

### 11. PROFIT / (LOSS) ATTRIBUTABLE TO THE COMPANY

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income for the Company is presented as part of these financial statements. The Company's profit after tax for the year amounted to £72,515,795 (2018: loss of £93,185,842).

### 12. TANGIBLE FIXED ASSETS

The Group and the Company	Leasehold improvements and fixtures & fittings £'000	Hardware, software and equipment £'000	Total £'000
<b>Cost:</b>			
At 1 January 2019	8,429	9,163	17,592
Additions	300	241	541
Disposals	(163)	(265)	(428)
<b>At 31 December 2019</b>	<b>8,566</b>	<b>9,139</b>	<b>17,705</b>
<b>Accumulated depreciation:</b>			
At 1 January 2019	1,063	8,384	9,447
Charge for the year	1,114	396	1,510
Disposals	(163)	(90)	(253)
<b>At 31 December 2019</b>	<b>2,014</b>	<b>8,690</b>	<b>10,704</b>
<b>Net book value:</b>			
<b>At 31 December 2019</b>	<b>6,552</b>	<b>449</b>	<b>7,001</b>
<b>At 31 December 2018</b>	<b>7,366</b>	<b>779</b>	<b>8,145</b>

Included within the net book value of leasehold improvements is an amount of £1,163,959, (2018: £1,380,958) relating to the Company's estimate of the costs of restoring the new office, 150 Cheapside to its original state at the end of the lease.

**HERMES FUND MANAGERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019**  
(continued)

**13. FIXED ASSET INVESTMENTS**

	Investment in Joint Ventures £'000	Level 1 Investments £'000	Level 3 Investments £'000	Total £'000
<b>The Group</b>				
At 1 January 2019	8,868	249	-	9,117
Share of retained profit	1,706	-	-	1,706
Additions	887	12,402	2,804	16,093
Movement in fair value	-	606	-	606
Goodwill amortisation	(967)	-	-	(967)
Disposals	-	(25)	-	(25)
<b>At 31 December 2019</b>	<b>10,494</b>	<b>13,232</b>	<b>2,804</b>	<b>26,530</b>

Unamortised goodwill of £967,000 (2018: £1,934,000) arising on the part-acquisition of Hermes GPE LLP in 2011 is included in the carrying value of the investment in joint ventures in accordance with the policy set out in the Accounting Policies. A total of £967,000 (2018: £967,000) was amortised during the year relating to the Hermes GPE LLP joint venture.

Investments held at 31 December 2019 include both Level 1 and Level 3 investments. For Level 1 investments, a publicly quoted price is available and these investments are measured at fair value through profit and loss. Level 1 investments include hedging investments in relation to deferred bonuses and seed capital in listed investments. At 31 December 2019, the Group held Level 1 investments totalling £13,232,000 (2018: £249,000). Level 3 investments include seed capital in a private markets credit fund. There is no readily available market price for this investment. This investment has been measured at fair value through profit and loss, however with no readily available observable market data, the cost of the investment is the most appropriate fair value. At 31 December 2019, the Group held Level 3 investments totalling £2,804,000 (2018: nil).

The Group had no interests in associate undertakings at the balance sheet date.

**HERMES FUND MANAGERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019**  
(continued)

**13. FIXED ASSET INVESTMENTS (continued)**

	Investment in Subsidiaries £'000	Investment in Joint Ventures £'000	Level 1&3 Investments £'000	Total £'000
<b>The Company</b>				
<b>Cost / fair value:</b>				
At 1 January 2019	23,854	14,045	249	38,148
Additions	11	887	15,206	16,104
Movement in fair value	-	-	606	606
Disposals	-	-	(25)	(25)
<b>At 31 December 2019</b>	<b>23,865</b>	<b>14,932</b>	<b>16,036</b>	<b>54,833</b>
<b>Provision for impairment:</b>				
At 1 January 2019	106	-	-	106
<b>At 31 December 2019</b>	<b>106</b>	<b>-</b>	<b>-</b>	<b>106</b>
<b>Carrying value:</b>				
At 31 December 2019	23,759	14,932	16,036	54,727
At 31 December 2018	23,748	14,045	249	38,042

The Company has recognised a provision for impairment against its equity investment in Hermes Investments (North America) Limited, due to the uncertain timing as to when the Company will earn a return from this investment.



**HERMES FUND MANAGERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019**  
(continued)

**14. DEBTORS**

	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Due within one year:</b>				
Amounts due from subsidiaries	-	26,296	-	15,795
Amounts due from the joint venture	51	-	184	-
Amounts due from shareholders	3,536	437	9,391	-
Trade debtors	1,185	142	4,047	1,710
Deferred tax	18,779	14,273	14,524	10,727
Other debtors	413	897	1,256	874
Corporation tax recoverable	-	1,412	193	191
Prepayments and accrued income	40,257	10,671	31,035	3,606
	<b>64,221</b>	<b>54,128</b>	<b>60,630</b>	<b>32,903</b>
<b>Due after one year:</b>				
Other debtors	1,873	1,873	-	-
	<b>66,094</b>	<b>56,001</b>	<b>60,630</b>	<b>32,903</b>

Other debtors due after one year comprise a deposit of \$2.3m lodged with the U.S. Internal Revenue Service ("IRS"). This deposit is interest bearing and callable on demand. The deposit paid to the IRS relates to the application submitted by the Hermes Investment Funds Plc. regarding a historical US withholding tax obligation (see note 21).

**HERMES FUND MANAGERS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019**  
(continued)

**15. CREDITORS**

	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year:</b>				
Amounts due to parent	70	-	-	-
Amounts due to the joint venture	657	520	206	59
Amounts due to subsidiaries	-	52,430	-	83,535
Other creditors	495	459	1,643	1,526
Corporation tax payable	873	-	-	-
Deferred income	3,840	3,840	773	773
Accruals	49,167	20,811	41,226	17,909
	<b>55,102</b>	<b>78,060</b>	<b>43,848</b>	<b>103,082</b>

	<b>2019</b>	<b>2019</b>	<b>2018</b>	<b>2018</b>
	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due after more than one year:</b>				
Owed to parent	-	-	-	-
Other creditors	904	842	1,115	5,481
Accruals	11,004	4,595	6,624	-
Deferred income	62	62	4,381	4,381
	<b>11,970</b>	<b>5,499</b>	<b>12,120</b>	<b>9,862</b>

The current and non-current deferred income balance includes an amount of £3,758,591(2018: £5,154,639) arising from a lease incentive received from the Group in 2017. An original lease incentive amount of £6,250,000 was received in respect of the Group's office premises, 150 Cheapside, and is being amortised to the profit and loss account on a straight-line basis. In November 2019, a new lease was signed for 150 Cheapside, effective October 2020. The deferred income amortisation profit has been accelerated to the end of the current lease (October 2020).

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 15. CREDITORS (continued)

Other creditors falling due within one year includes deferred consideration of £200,000 (2018: £400,000) in respect of the Company's repurchase of the remaining 9.51% shares in Hermes European Equities Limited in 2017.

Other creditors falling due after more than one year includes an unfunded retirement benefit with respect to two retired chief executives. The fair value of this liability as at 31 December 2019 was £842,000 (2018: £828,000).

#### 16. PROVISIONS

	Dilapidation provision 2019 £'000
<b>The Group and Company</b>	
At 1 January	1,659
Charged to the profit and loss	-
Utilisation of provision	-
At 31 December	<u>1,659</u>

A dilapidation provision, in respect of the work that will need to be carried on termination of the Group's existing lease arrangements to restore the premises to its original condition was recognised in 2017. The provision was reviewed at year end by a third-party specialist and our provision estimate was deemed appropriate. No revision to the provision was recognised in 2019.

#### 17. PENSION COMMITMENTS

The Group operates one type of pension scheme for employees: a defined contribution scheme. Under this scheme, the Group's annual contribution and obligation to an employee's pension is measured as, and limited to, a specific percentage of salary. Contributions to the defined contribution scheme amounted to £4,491,837 (2018: £4,134,164).

# HERMES FUND MANAGERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

### 18. FINANCIAL INSTRUMENTS

The carrying value of the Group's financial assets and liabilities are summarised below:

	Notes	2019 £'000	2018 £'000
<b>Financial assets</b>			
<b>Measured at fair value through profit or loss</b>			
Fixed asset unlisted investments	13	16,036	249
Foreign exchange forward derivative contracts		2,338	-
<b>Measured at amortised cost</b>			
Cash and cash equivalents	23	89,894	81,149
Trade and other debtors excluding deferred tax	14	47,315	42,020
		<u>155,583</u>	<u>123,418</u>

The Group enters into forward foreign exchange contracts to hedge exposure to net revenues received in a foreign currency. The asset above reflects the fair value of those derivative contracts at the balance sheet date. The analysis below shows the contracts open as of the year end. In 2018 the open forward contracts were in a liability position; these contracts have been detailed under financial liabilities.

#### Assets as at 31 December 2019

Sell		Buy		Settlement date	Fair value in £'000
USD '000	21,264	GBP '000	16,000	31/03/2020	18
USD '000	24,058	GBP '000	19,000	30/06/2020	960
USD '000	22,243	GBP '000	<u>18,000</u>	30/09/2020	<u>1,360</u>
			<b>53,000</b>	<b>Fair value</b>	<b><u>2,338</u></b>

# HERMES FUND MANAGERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

### 18. FINANCIAL INSTRUMENTS (continued)

	Notes	2019 £'000	2018 £'000
<b>Financial liabilities</b>			
<b>Measured at fair value through profit and loss</b>			
Foreign exchange forward derivative contracts		-	3,005
<b>Measured at amortised cost:</b>			
<b>Measured at undiscounted amount payable:</b>			
Trade and other creditors (existing deferred income)	15	63,170	50,814
		<u>63,170</u>	<u>53,819</u>

#### Liabilities as at 31 December 2018

Sell		Buy		Settlement date	Fair value in £'000
USD '000	21,590	GBP '000	15,000	19/04/2019	1,839
USD '000	21,365	GBP '000	16,000	31/07/2019	593
USD '000	20,135	GBP '000	15,000	17/10/2019	573
			<u>46,000</u>	<b>Fair value</b>	<u>3,005</u>

### 19. CALLED UP SHARE CAPITAL

	2019 £'000	2018 £'000
Issued and fully paid ordinary shares of £1 each	83,592	83,592
Share premium	-	71,866
	<u>83,592</u>	<u>155,458</u>

On 2 December 2019, UK Companies House accepted the Group's application for a reduction of capital, whereby the balance on the Group share premium account (£71,866,208) was cancelled and transferred to the profit and loss reserve, eliminating the Group's brought forward accumulated losses.

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 20. LONG-TERM INCENTIVE PLAN

Following the acquisition by Federated Hermes, Inc. (formerly known as Federated Investors, Inc.) a new LTIP was established that aligns the interests of employees to those of the shareholders by encouraging employees to grow profits over the long term through sustained performance. The LTIP awards restricted stock units ("RSU's") of up to 10.5% of the equity of Hermes to senior management and is designed to encourage profitable growth. The RSU's have been split into two pools – Pool A and Pool B. The two pools have different vesting periods which were put in place to reflect the needs of both shareholders.

	Pool A	Pool B
At 1 January 2019 (Tranche 1)	5,009,237	1,705,274
Granted during the year	-	-
Forfeited during the year	(335,585)	(114,243)
At 31 December 2019	<u>4,673,652</u>	<u>1,591,031</u>

The vested award, granted in July 2018, is available for sale from the two pools as follows:

- Pool A: 6<sup>th</sup> Anniversary (33.3%), 7<sup>th</sup> Anniversary (33.3%), 8<sup>th</sup> Anniversary (33.3%) of the grant date.
- Pool B: 4<sup>th</sup> Anniversary (50%), 5<sup>th</sup> Anniversary (50%) of the grant date.

	Pool A	Pool B
At 1 January 2019 (Tranche 2)	-	-
Granted during the year	669,000	-
Forfeited during the year	(45,000)	-
At 31 December 2019	<u>624,000</u>	<u>-</u>

The vested award, granted in July 2019, is available for sale from pool A as follows:

- Pool A: 6<sup>th</sup> Anniversary (33.3%), 7<sup>th</sup> Anniversary (33.3%), 8<sup>th</sup> Anniversary (33.3%) of the grant.

None of the outstanding awards were exercisable as of 31 December 2019. The fair value of the share awards granted in Tranche 1 was determined using the enterprise value derived from the price paid by Federated Hermes, Inc. at the time of acquisition, which coincided with the date of grant of the awards. Tranche 2 was awarded on the first anniversary of the acquisition. The value of the share award was determined by a third-party specialist.

The total amount recognised as at 31 December 2019 in relation to these awards was £11,315,000 (2018: £3,897,000). An additional 1,196,141 Tranche 1 shares and 45,000 Tranche 2 shares remained unallocated at 31 December 2019.

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 21. FINANCIAL COMMITMENTS

##### Operating lease commitments and contractual obligations

As at 31 December 2019, the Group's and Company's total future minimum lease payments under non-cancellable operating leases were as follows:

	Land and Buildings 2019 £'000	Land and Buildings 2018 £'000
Within one year	2,912	3,017
Between one– five years	13,551	10,881
After five years	19,645	4,430
	<u>36,108</u>	<u>18,328</u>

Operating leases with respect to land and buildings primarily relate to the UK office at 150 Cheapside. In November 2019, a new lease was signed (effective October 2020) extending the Group's lease to 2030, while also increasing the Group's floor space. Office space has also been leased to the Group in Dublin, Copenhagen, Frankfurt and Madrid.

##### Contingent Liabilities

During the year the Company gave guarantees under Section 479C of the Companies Act 2006 to two wholly owned subsidiary undertakings: Hermes Assured Limited and Hermes Investments (North America) Limited. As such, both subsidiaries are exempt from the requirements of the Companies Act relating to the audit of individual accounts for the year ended 31 December 2019 by virtue of Section 479A of the Companies Act 2006.

As previously disclosed in the Group's Annual Report for the year ended 31 December 2018, Hermes Investment Fund plc ("HIF"), a Hermes-sponsored fund, claimed a reduced rate of withholding tax on US dividends from 1 January 2013 up to 1 March 2018. External counsel has been corresponding with the United States' Internal Revenue Service ("IRS") in respect of the issue on behalf of Hermes/HIF. In the event that the IRS deems that HIF is required to make any payment relating to retrospective taxes, Hermes has provided a guarantee to HIF to compensate investors who may have suffered any detriment to the carrying value of their investment.

Accordingly, the existence of any obligations at 31 December 2019, is considered to be immaterial and no provision for any potential liability has been made in these financial statements. Notwithstanding this, the Company has professional indemnity insurance which should cover the material amount of any potential claim. Following continued external counsel advice in 2019, HIF submitted an application to the IRS in September 2019. As part of the application, the Company and HIF lodged a deposit with the IRS in respect of the withholding tax under discussion (see note 14).

# HERMES FUND MANAGERS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

### 22. RECONCILIATION OF OPERATING PROFIT / (LOSS) TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Operating profit/(loss)	12,340	(12,926)	(39,897)	(98,414)
Bank charges	(26)	(17)	(26)	(22)
Depreciation	1,510	1,510	1,408	1,408
Amortisation	967	-	1,335	-
Loss on disposal of tangible fixed assets	175	175	-	-
Share based payments	7,418	3,521	3,897	3,897
Decrease in provisions	-	-	(3,899)	(3,899)
(Increase)/decrease in debtors	475	(17,238)	(13,117)	199
Increase/(decrease) in creditors	8,355	(31,196)	(18,581)	25,805
Taxation	-	-	1,672	4,892
Interest paid	-	-	(580)	(622)
Tax paid	(873)	(873)	-	-
<b>Net cash generated/(used) in operating activities</b>	<b>30,341</b>	<b>(57,044)</b>	<b>(67,788)</b>	<b>(66,756)</b>

### 23. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Net funds at beginning of year	81,149	73,720	78,347	71,948
Increase in cash in year	14,596	7,288	6,581	5,129
Effect of foreign exchange rate changes	(5,851)	(5,338)	(3,779)	(3,357)
<b>Net funds at end of year</b>	<b>89,894</b>	<b>75,670</b>	<b>81,149</b>	<b>73,720</b>



## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 24. ADDITIONAL INFORMATION OF PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

The Company and the Group have investments in the following subsidiary undertakings and joint ventures that principally affect the results and net assets of the Group.

SUBSIDIARY UNDERTAKINGS	ACTIVITY	REGISTERED ADDRESS
Hermes Investment Management Limited	Investment management	Sixth Floor, 150 Cheapside, London, EC2V 6ET
Hermes Real Estate Investment Management Limited	Investment management	Cheapside
Hermes European Equities Limited	Investment management	Cheapside
Hermes Private Equity Limited	Investment management	Cheapside
Hermes Alternative Investment Management Limited	Investment management	Cheapside
Hermes Equity Ownership Services Limited	Stewardship and corporate governance	Cheapside
Hermes Administration Services Limited (Dissolved 20.2.18)	Investment management	Cheapside
Hermes Assured Limited	Investment management	Cheapside
Hermes Investments (North America) Limited	Investment management	Cheapside
Hermes Stewardship North America, Inc.	Stewardship and corporate governance	1001 Liberty Avenue #2100, Pittsburgh, PA 1522, USA
Hermes Real Estate Debt GP Limited	Investment management	Cheapside
Hermes Private Debt I GP Limited	Investment management	Cheapside
Hermes Global Funds GP Limited	Inactive	c/o Walkers Corporate Services Limited, 87 Rory Street, George Town, Grand Cayman, KY1-9005, Cayman Islands
Hermes Pension Fund Management Limited	Inactive	Cheapside
Hermes Secretariat Limited	Inactive	Cheapside
Hermes Sourcecap Limited	Inactive	Cheapside
Hermes Private Debt (Lux) I GP S.à.r.l.	Investment management	51 Avenue J F Kennedy, Kirchberg, L1855, Luxembourg
Hermes Private Debt (Lux) II GP S.à.r.l.	Investment management	51 Avenue J F Kennedy, Kirchberg, L1855, Luxembourg
Hermes Fund Managers Ireland Limited	Investment management	70 Sir John Rogerson's Quay, Dublin, D02 R296, Ireland
Hermes Direct Lending Limited Partnership	Investment management	Cheapside
Hermes BPK Co-Investment Trustee Ltd	Inactive	Cheapside
Hermes Seoul GP, S.à.r.l.	Investment management	Airport Centre Luxembourg 5, Heienhaff, L1736, Luxembourg
Hermes GPE LLP*	Investment management	33 Gutter Lane, London, EC2V 8AS

\*Joint ventures

Vista UK Residential Investment 1 (GP) LLP\* was dissolved on 9 April 2019.

The subsidiary undertakings disclosed above are all wholly-owned subsidiaries. All subsidiaries disclosed above have been consolidated in these financial statements.

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY

The Group's activities expose it to a number of financial risks. The use of financial derivatives is governed by the Group's policies approved by the Hermes' Board, which provides written principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

The principal financial risk exposures of the Company and the Group at the balance sheet date relate to credit, liquidity, interest rate and market risks. The Group has in place a system of controls and processes to mitigate the risks identified.

##### Credit Risk

Credit risk is the risk that a counterparty will be unable to meet a commitment that it has entered into with the entity. A consequence of both investment transactions within the funds and transactions within Group entities is the involvement of counterparties, particularly brokers. A process is in place to assess the suitability of counterparties.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. At 31 December 2019, the Group and the Company's financial assets exposed to credit risk amounted to the following:

##### Financial assets

	2019	2019	2018	2018
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Cash at bank	89,894	75,670	81,149	73,720
Forward foreign exchange contracts	2,338	2,338	-	-
Owed by the joint venture	51	-	184	-
Owed by subsidiaries	-	26,296	-	15,795
Trade debtors and accrued income	38,126	7,142	40,580	1,710
Owed by parent	3,536	437	-	-
Other debtors	2,286	2,770	1,256	874
	<u>136,231</u>	<u>114,653</u>	<u>123,169</u>	<u>92,099</u>

Cash at bank is held in current accounts or placed on deposit in highly-rated liquid money-market funds or with highly-rated counterparties. Bankruptcy or insolvency of bank counterparties may cause the Company's rights with respect to the cash held by the banks to be delayed or limited. Bank credit ratings are high and are monitored by management with reference to reputable rating agencies such as Standard & Poor's, Moody's or Fitch. If the banks' financial positions were to materially deteriorate then cash holdings would be moved to other banks.

Bankruptcy or insolvency of the counterparty may cause delays in obtaining the amounts owed, or the Company may have limited rights in respect of the amounts owed. The Company manages its risk by dealing with reputable counterparties offering a low risk of default. The financial position of the counterparties is regularly reviewed. At year-end, there were trade debtors, totalling £6,225 that were more than 90 days past due (2018: £Nil), however this was settled prior to the approval of these financial statements.

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY (continued)

##### Liquidity Risk

Liquidity risk arises as a result of the possibility that the Company may not have sufficient cash funds to meet its liabilities as they fall due.

Below is a maturity analysis of the Group's and the Company's undiscounted liabilities at the balance sheet date:

Financial liabilities	Maturity	2019 Group £'000	2019 Company £'000	2018 Group £'000	2018 Company £'000
Owed to parent	On demand	70	-	-	-
Owed to the joint venture	On demand	657	520	206	59
Owed to subsidiaries	On demand	-	52,430	-	83,535
Other creditors	On demand	1,368	459	4,648	4,531
Accruals	On demand	49,167	20,811	41,226	17,909
Accruals	>12 months	11,004	4,595	6,624	-
Other creditors	>12 months	904	842	1,115	5,481
		<u>63,170</u>	<u>79,657</u>	<u>53,819</u>	<u>111,515</u>

The Company's liquidity risk relates to its cash dealings with clients, day-to-day trading activity, the funding of operational expenses and meeting solvency requirements as determined by the regulator (Financial Conduct Authority). The maintenance of liquidity is reported and monitored by senior management on a regular basis.

##### Interest Rate Risk

While not the primary focus of the Group, the nature of the business gives rise to large cash balances being held and consequently potentially significant interest receipts. Hermes' Finance department aims to mitigate the interest rate risk by continually monitoring the cash position of the Group and seeks the optimal level of cash to place on deposit given the Group's liquidity requirements.

If the average rate of interest was 2% higher during the year based upon the average cash position, an additional £1.7m interest would have been earned. A decrease in the average rate of interest would have an equal opposite impact.

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND STRATEGY (continued)

##### Market Risk

Market risk is the possibility for the Group to experience losses due to factors that affect the overall performance of the financial markets in which the Group is involved.

##### Foreign currency

One key factor is foreign currency exchange risk as the Group receives income and incurs expenses in foreign currencies.

Due to a net exposure to foreign currency movements, the Group hedges the majority of this exposure through the use of foreign currency forward contracts (see note 18 for further disclosures). The Group has £50.3m of foreign currency exposure on the balance sheet at 31 December 2019 of which £39.9m is US dollar denominated.

If the US dollar strengthened against sterling by 2%, this would result in a gain of £0.8m, while a weakening would have an equal opposite impact.

##### Investments

Assets measured at fair value through profit and loss include hedging investments in relation to deferred bonuses and seed capital (see note 13) which are subject to market price risk. The Group's exposure to market price risk as at 31 December 2019 is £16.0m.

If the price of these investments weakened by 10%, this would result in a loss of £1.6m, while an increase in the value of these investments would have an equal opposite impact.

#### 26. RELATED PARTY TRANSACTIONS

##### (a) General information and disclosure exemptions

##### *Subsidiaries*

The Company prepares Group accounts into which its subsidiaries are consolidated. The Company has not disclosed related party transactions with wholly owned subsidiaries as it is taking advantage of the exemption in FRS 102.

##### (b) Related-party transactions

The following transactions occurred during the year with related parties:

##### *Federated*

Stewardship fees of £251,250 (2018: £nil) were recognised in relation to stewardship services of which £80,000 remained due to the Company at 31 December 2019 (31 December 2018: £nil). In 2019, Hermes in conjunction with Federated seeded four new funds; the Hermes investment totalling £4,525,911 (\$6,000,000). Federated Investors (UK) Limited, a UK domiciled subsidiary of Federated has sub-let office space in the Hermes head office at 150 Cheapside at a fee of £267,380 in 2019 (2018: £nil). The Hermes Frankfurt branch sub-let office space from Federated Asset Management GmbH at a cost of £6,572 in 2019 (2018: £nil).

## HERMES FUND MANAGERS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)

#### 26. RELATED PARTY TRANSACTIONS (continued)

##### *BTPS*

Management fees of £26,909,553 (2018: £31,780,482) were recognised in relation to investment management services of which £3,081,924 remained due to the Group at 31 December 2019 (31 December 2018: £9,390,618). Included within management fees are fees from real estate joint venture limited partnerships managed by the Group where BTPS is an investor.

##### *BT Pension Scheme Management Limited ("BTPSM")*

Central allocated costs from the Company to BTPSM totalled £1,502,049 during the year (2018: £1,156,665). An amount was due to the Company from BTPSM totalling £137,709 at year-end (2018: £426,868).

##### *Hermes GPE LLP ("HGPE")*

There were no profit distributions received by the Company from HGPE during the year (2018: £3,475,525). In 2019, a capital contribution of £887,500 was made to HGPE (2018: £371,354).

Central allocated costs from the Company to HGPE totalled £1,616,167 during the year (2018: £1,800,000). A net amount was due to HGPE from the Company totalling £605,522 at year-end (2018: receivable from HGPE £21,805).

Carried Interest of £8,900,275 (2018: £1,970,087) was recognised as revenue by the Company during the year from the fund vehicles managed by HGPE.

The amounts outstanding above for BTPSM and HGPE are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

The following transactions occurred during the year with other related parties:

##### *Directors' transactions*

There were no loans to Hermes' Directors in the year ended 31 December 2019. In 2018, the Company advanced one of its directors an unsecured loan totalling £300,000, which was repaid within the year. Interest was charged at the HMRC beneficial loan rate.

##### *Other related-party transactions*

The key management personnel are Hermes' Executive Directors and the Executive Committee.

The total remuneration for key management personnel for the period totalled £7,246,516 (2018: £35,505,136), being remuneration disclosed in note 9 of £4,221,277 (2018: £22,251,532) and remuneration provided to other key management personnel of £3,025,239 (2018: £13,253,604).

## **HERMES FUND MANAGERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2019 (continued)**

#### **27. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

Federated Hermes, Inc. formerly, Federated Investors, Inc. is the Group's ultimate parent undertaking and controlling party, it is also the parent of the largest group for which group financial statements are prepared.

The accounts of Federated Hermes, Inc. can be obtained at its Registered Office at 1001 Liberty Avenue, Pittsburgh, PA 15222-3779, United States of America.

The accounts of Hermes Fund Managers Limited can be obtained at its Registered Office, Sixth Floor, 150 Cheapside, London, England, EC2V 6ET.

#### **28. SUBSEQUENT EVENTS**

On 15 January 2020 Hermes completed the acquisition of 100% of the share capital of MEPC Limited, a UK commercial real estate developer and asset manager for a total consideration of £8.9m. The consideration comprises both an upfront payment and contingent future consideration.

The Board has considered the impact of COVID-19 on the Group's operations, regulatory capital and liquidity as part of its process to approve the Group's financial results and position.

By 31 March 2020, the world's principal global equity indices had fallen within an approximate range of 15% to 30% from the position at 31 December 2019. Comparatively, the Group's AuM has remained resilient over this period with an aggregate reduction of less than 13.5% and net redemptions from clients of less than 2% of AuM.

The Group's downside scenario forecasting demonstrates that the Group could absorb a far more severe reduction in AuM before annualised revenues fall to levels at which the Group would be unprofitable in 2020.

The Board acknowledges that this recent volatility in financial markets will affect the Group's profitability in the short term. However, the Group has a significant regulatory capital surplus and cash reserves such that the Board has a high degree of confidence that the Group will be able to continue to meet its liabilities for the foreseeable future, and for at least twelve months from the date of this report (refer to the Going Concern statement on page 77 for further details).

The well-being of the Group's staff is the Board's primary concern, as such business continuity procedures have been enacted requiring the temporary closure of the Group's offices and for staff to work from home. Since the implementation of these business continuity plans, the Group has demonstrated a capacity to continue to operate all core business functions in accordance with the Group's existing policies.

There were no other subsequent events material to the financial statements from the balance sheet date, 31 December 2019, to the date of approval of the financial statements, 9 April 2020.